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15 April 1985

China Report

ECONOMIC AFFAIRS



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15 April 1985

CHINA REPORT

ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

CALCULATION OF CHINA'S NATIONAL INCOME DISCUSSED

Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 4,
Jul-Aug 1984 pp 53-57

[Article by Du Huilin [2629 5610 2651]: "National Income"]

[Excerpts] National income is a very important comprehensive quota in economic statistics. The gross amount of national income reflects the level, high or low, of the people's livelihood, and the scale of the expansion of reproduction. The speed of growth of the national income reflects the speed of the improvement of the people's standard of living and the development of the national economy. A correct calculation of the total product of society and the national income constitutes the foundation for the correct analysis of all kinds of balanced and proportionate relationships.

Recently, the State Council has approved the use of "national income" as the comprehensive quota for measuring economic development. This is an important reform in the planned statistical work as well as the entire macroeconomic guidance in our country. It has stipulated that, as of 1984, the various provinces, municipalities and autonomous regions must begin to draw up local plans for national income and must strengthen their statistical work on the net value of industrial output. In 1984, it is prepared to first select a few enterprises as pilots in this respect.

Compared to using the gross value of industrial and agricultural output as the quota, there are three advantages to using the national income as the comprehensive quota for measuring economic development:

1. It can more accurately represent the speed of economic development. This is because the national income has taken out the transfer value of the target of labor and the means of labor in the total output value of society. Therefore, the problem of redundant calculation does not exist.
2. The national income reflects in an all round manner the gross results of the production activities of such material sectors as agriculture and industry. It can reflect in an all-round manner the level of economic development of our country and help correctly estimate our national strength and maintain a harmonious development of the national economy.

3. It can unify speed and results in a better manner. The national income not only reflects the speed of production development but also the economy practiced in material consumption. Thus, the growth in the national income reflects the results of increasing production and practicing economy.

Although the various countries in the world have used "national income" as a comprehensive economic quota to carry out comprehensive study of the production, distribution, circulation and use of social products, yet, the difference between eastern and western economic theoretical foundation has led to a difference in meaning and method of calculation, resulting in the formation of two major accounting systems, which will be described as follows:

III. Concerned Target System and Calculation in Our Country

Our country adopts the system of material product balance (MPS), and calculates only the results of labor of the material production sectors. Toward social products, there are the following several different targets for gross output:

1. The total product of society refers to the sum total of the useful products produced by the various material production sectors within a definite period of time. In terms of value composition, this means the total output value of society, which can be represented by $c + v + m$. The total output value of society embodies a problem of redundant calculation because it includes the transfer value of the means of production.

2. The gross value of industrial and agricultural output. Industry and agriculture are the largest material production sectors of the national economy, constituting roughly 80 percent of the gross output value of the various sectors. This is one of the targets of gross output which our country has all along adopted.

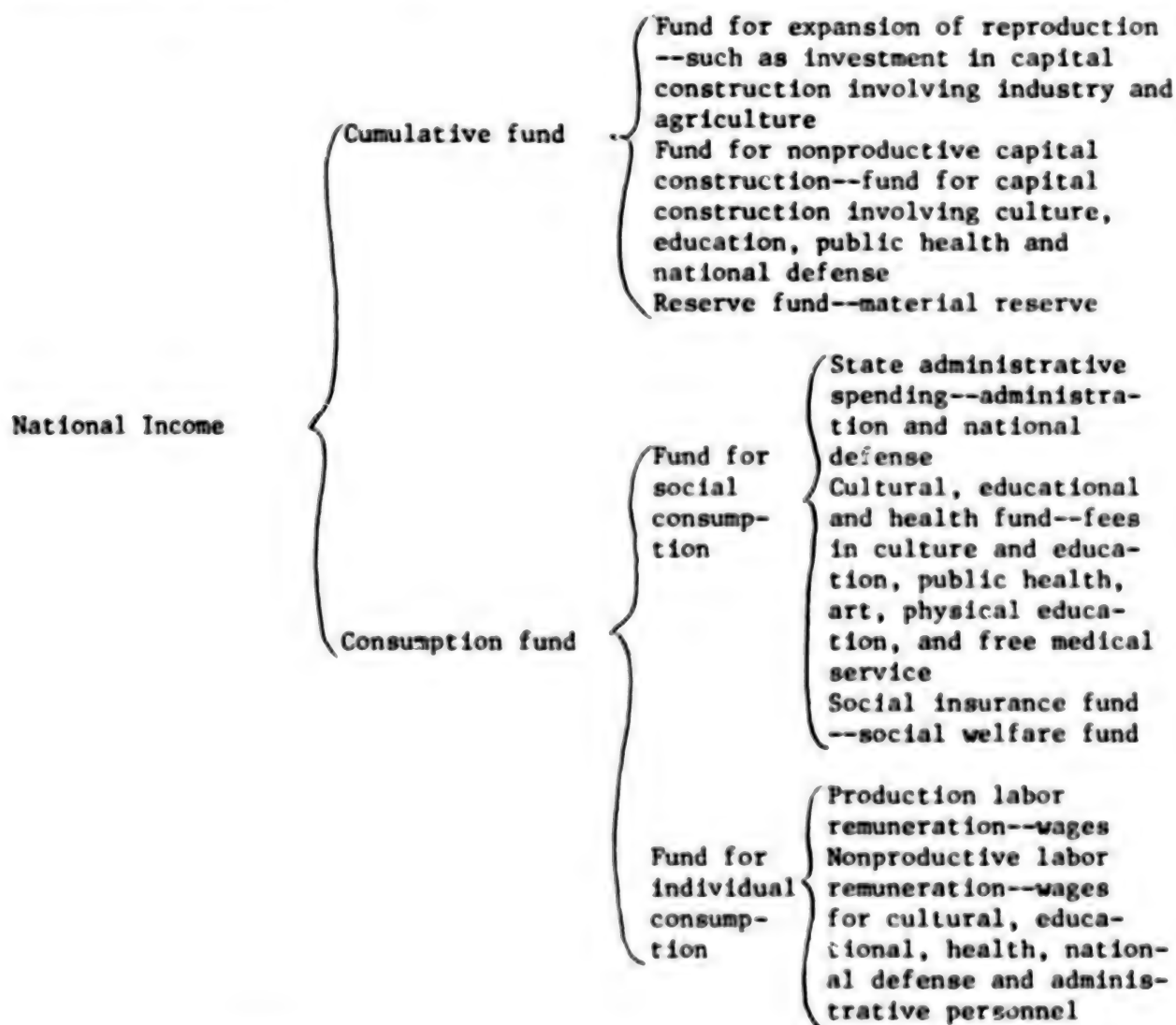
In respect to the method of calculation, we use the product method in agriculture, which is to calculate the output value with the product as the main body. In industry, we use the factory method (or enterprise method), which is to calculate the output value with the business unit as the main body. Because the enterprises provide the means of production for one another, the gross output value therefore includes the redundant calculation involving the transfer value. Because agriculture uses the product method for calculation, there is less redundancy. Therefore, the net value of agricultural output in our country constitutes a larger percentage in the gross value of agricultural output, which for years has been between 60 and 80 percent. Industry uses the factory method in calculation, giving a greater redundancy. Therefore, the net value of industrial output constitutes a smaller percentage in the gross value of industrial output, which for years has been between 32 to 38 percent. (RENMIN RIBAO, 18 January 1984)

3. The net product of society. The net product of society is the surplus product of the total product of society after deducting the compensatory means of production, and is also referred to as the newly-created product. The value form of the net product of society, that is, the net output value of society or the national income, is represented by $v + m$.

The national income includes wage funds (v) and the net income of society (m-- which includes enterprise profits, taxes and interests). The national income does not include the problem of the redundant calculation of the transfer value involving the wear and tear of the means of labor and the consumption of the target of labor.

In 1982, calculating from the prices of that year, the national income of our country was 424.7 billion yuan.

The situation of the distribution of our country's national income is shown in the following chart:



4. The final product of society. This refers to the product which is produced currently and will not be processed currently for the final consumption and use by society. This should include: All the consumer products which the citizens and social consortiums buy from the market and produce for use by themselves; all the products which are regarded as fixed assets and the added portion kept in reserve; and the net export products.

The final product of society, represented in value, is the final output value of society. It is equivalent to the newly-created value plus depreciation, which is represented by $c + l + v + m$ ($c + l$ representing the transfer value involving the means of labor, which is equivalent to the depreciation fee which should be drawn). The final output value has deducted the redundant calculation involving the object of labor among the various production sectors.

IV. The Conversion Into National Income According to SNA and MPS.

There are three methods of calculating the national income:

1. The production method. Proceeding from social production, the gross value of social production after deducting material consumption equals the national income.
2. The distribution method. This means calculating the national income from the results of distribution.

The national income equals $\left\{ \begin{array}{l} \text{Individual income (V)--wages.} \\ \text{The net income of society (M)} \\ \text{--taxes and profits.} \end{array} \right.$

3. The use method. Calculating from the use of the final product, the final product used by the individual plus that used by the various sectors, that is, all the means of consumption plus the means of production used for expanding reproduction, constitutes the national income.

According to the SNA accounting system, the national income includes a large volume of service value. However, in our country (which includes the MPS), the national income only includes the newly-created value by the material production sectors. Thus, a comparative study of the situation of the national income of various countries must involve conversion.

The various capitalist countries generally publish year after year the gross national product and materials on the national income of different sectors. Using this category of materials, by deducting the non-material production portion and adding the indirect taxes, we will obtain the corresponding quota of the MPS.

Conversion can be carried out in respect to the element of distribution and the element of final product. Using the method involving the element of distribution to convert our country's national income into the gross national product of the west, we can add to our national income the value created by active labor of the various service sectors and the depreciation of the whole society. Then we will obtain the gross national product according to SNA.

Using the method involving the final product to convert our country's national income into the gross national product of the west, we can add the following three together: 1) The commodities and labor service which the citizens and government have purchased; 2) the fixed assets and added reserve built by the

state, the collective and the individual; and 3) the net export of commodities and labor service. Then, we will obtain the value that is equivalent to the gross national product calculating from the SNA.

For instance, in the United States, in 1978, the U.S. government published the national income at \$1,724.3 billion, which was converted to \$1,236.1 billion in national income calculated from the material production sectors. The exaggerated rate involving the portion of material production balance was 39.5 percent.

The national income published in the United States every year involves the statistics of 11 sectors: With the exception of the five major material production sectors, the other sectors were: Banking, insurance, and real estate; service trades; posts and telecommunications and public works; government and government enterprises; and foreign economy. These were either production or service sectors. The specific calculation involving the deduction of the value of non-material production is a complex and difficult task. A rough calculation shows that the national income according to U.S. specifications $\times 68.57$ percent = the national income according to the specifications of our country. This is also generally true with the other countries using the SNA.

In respect to the target of the gross output of society's products, at present, our country's statistical department is temporarily using the base figure of the gross amount of national income of the period reported plus 13 percent involving the income from the non-material production sectors and the depreciation from the fixed assets of the various sectors of the national economy. Then, according to the China-U.S. foreign exchange rate, convert the "gross national product" of our country to the dollar and then carry out approximate comparison with the other countries in the world which are using the SNA.

V. The Problem Concerning the National Income in Our Country.

1. The problem of the structure of distribution of the national income.

After initial distribution and redistribution, the national income becomes the final income of the production enterprises, the various units of the non-material production sectors and the citizens. This final income is partly used in consumption to satisfy the current needs of the individual's livelihood and public needs of society, and is partly used in accumulation in order to satisfy the needs of productive construction, non-productive construction and the building of a material reserve.

The structure of distribution of the national income is a very major question involving distribution. In light of the existing production, the economic structure determines the structure of distribution. In light of the changes in the economic structure, how investment is distributed also determines the changes in the economic structure.

The so-called structure of distribution refers primarily to: 1) the proportion between accumulation and consumption; 2) the proportion between productive accumulation and non-productive accumulation; 3) the proportion between

accumulation in fixed assets and floating funds; 4) the proportion in the investment involving agriculture, light industry and heavy industry; 5) the proportion between social consumption and individual consumption, and so on and so forth. Among these proportional relationships, the most important one is the proportional relationship between accumulation and consumption. Whether or not the proportion between the fund for accumulation and the fund for consumption is appropriate will to a very great extent determine whether or not the entire national economy will develop in a harmonious and proportionate manner. For a long time, the mistakes which our country have made on the macroeconomic scale have primarily involved the improper proportion between accumulation and consumption. Our accumulation has been excessive and the proportion too big. Inside accumulation, we emphasized productive accumulation and neglected non-productive accumulation, emphasized investment in heavy industry and neglected investment in light industry, and so forth. As a result, the entire national economy has failed to develop harmoniously and in high speed, and we are forced to launch a readjustment on a relatively large scale.

Setting up a structure of distribution that conforms to the objective economic law as well as enhancing the reform of our country's economic structure so as to enable the entire national economy to develop harmoniously and in high speed is a topic of study which we should emphasize.

2. The percentage of financial income in the national income.

Summing up the experiences of our country for more than 30 years, comrade Bo Ibo maintained that the percentage of the financial income in the national income is more or less appropriate when it is equivalent to or slightly higher than 30 percent, while the percentage of accumulation in the national income should be equivalent to or slightly higher than 20 percent. However, these proportionate figures are only empirical figures.

The percentage of financial income in the national income of various countries differ. For instance, in 1979, in the Soviet Union, it was 64 percent; in Hungary, 73 percent, in Yugoslavia, 20 percent; and in other Eastern European countries, generally 50 percent. The financial income in Japan constitutes roughly 40.92 percent of the national income, according to our country's specifications.

Over the last few years, in our country, the percentage of financial income in that year's national income has dropped year after year. In 1978, it was 37 percent; in 1979, 32.9 percent; in 1980, 29.2 percent; and in 1981, 26 percent. Many problems have appeared.

The distribution and redistribution of the national income in our country are primarily realized through our finances. Studying the trend of use of our national income and studying the percentage of financial income in the national income also constitute an important factor in realizing the comprehensive balance and smooth development of the national economy.

3. The problem of synchronizing the speed of growth of the national income and the gross value of industrial and agricultural output.

In the 30 years from 1953 to 1982, the annual average speed of growth of the national income was 6 percent and the speed of growth of the gross value of industrial and agricultural output was 8.1 percent, giving a ratio of 0.74:1, with the speed of growth of the national income roughly 25 percent slower. In the past, the scale of investment in fixed assets in our country was excessive and the growth too fast. The annual average speed of growth was over 10 percent, which was roughly 1.7 times that of the speed of growth of the national income. Large quantities of funds were invested in an overlapping manner in products of long supply and obsolete technology, resulting in the stockpiling of materials and funds. Economic results were poor and waste was serious, and we failed to provide more useful products for society. This has greatly affected the growth of the national income.

A large volume of accumulation is not equivalent to great results. Large-scale investment is not equivalent to fast speed, and more so, is not equivalent to the fast improvement of the people's livelihood. In light of the situation in such countries as the United States and the Soviet Union, the speed of growth of investment and the speed of growth of the national income are generally not far apart. Another topic which we must study is: How to raise results and lower material consumption so as to enable a synchronous growth between the national income and the gross value of industrial and agricultural output in our country, and how to set up a system of targets for economic results which takes the national income as the key and which reflects the economic results of society.

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NATIONAL POLICY AND ISSUES

CIRCULATION OF CAPITAL VITAL TO BUILDING OF SOCIALISM

Guangzhou YANGCHENG WANBAO in Chinese 15 Aug 84 p 2

[Article by Zhuo Jiong [0587 3518]: "Theory of Circulation of Capital As Seen in the Phenomenon of 'Snowballing'"]

[Text] In an article entitled "A Brilliant Idea: 'Snowballing'" which was printed 26 July 1984, NANFANG RIBAO presented an introduction to the experience of how the Shenzhen Industrial Development Corporation had accumulated funds amounting to 200 million yuan in slightly more than a year. The article mentioned that in a quest for funding sources, they started with research in the experiences of business administration in Hong Kong and foreign countries, particularly the Hong Kong experience of engaging in real estate business, the emancipation of ideology and the audacious construction of standard factory buildings. The practices of all these consist in acquiring small loans from banks, in carrying out the development of lands and in adopting measures governing the sale and presale of factory buildings--"building precedes marketing," "marketing precedes building" and "building and marketing proceed simultaneously"--so that more funds could be drawn in for new investments in a second batch of projects, thereby generating an unending series of cycles. This keeps the "snowball" growing larger and larger at an accelerated tempo, the funds accumulating faster and faster and the development work getting bigger and bigger.

As a matter of fact, this measure is precisely the theory of the circulation of capital that Marx elucidated in "Das Kapital." In the past, we regarded the theory as capitalist exploitation and discarded it when we were studying "Das Kapital." Had we realized at an earlier date that socialism was still immersed in a commodity economy that could multiply in value, then we would not have waited until today to see what a "brilliant idea" this measure is.

We had better take a look at how Marx analyzed it. As an advocate of historical materialism, Marx certainly could not go beyond history to create a thesis out of thin air. Marx held the view that the circulation of commodities had two different patterns, namely, the simple circulation of commodities and the "developed circulation of commodities"--the circulation of capital.

The formula of the simple circulation of commodities is: commodity--currency--commodity. The formula of the circulation of capital is: currency--commodity--currency.

In the simple circulation of commodities, the two poles are commodities. They are commodities of equal value, yet they possess different qualitative use value, such as grain and clothes. In the course of exchange, currency plays only an intermediary role. Exchange serves the purpose of satisfying needs. Grain is sold to satisfy the need for clothes. Similarly, clothes are sold to satisfy the need for grain.

In the circulation of capital, the two poles are currency, that is, the volume of currency at the terminal point must definitely be greater than the volume of currency at the starting point. It is completely meaningless to have a currency of equal value trading for a currency of equal value. The multiplication of value means that the volume of currency at the terminal point is greater than the volume of currency at the starting point. The multiplication of value is therefore a goal of the circulation of capital. Historically, this multiplication of value has been tied primarily to capital, and it is therefore known as the circulation of capital. As one sees it today, this multiplication of value is an inevitable manifestation of the developed commodity circulation that is not necessarily integrated with capital. The practices of the Shenzhen Special Economic Zone have fully proved this. Why are we learning from the capitalist experience of enterprise management and administration? What we want to learn is not the capitalist system itself but only the experience of this proliferation of value.

In order to differentiate the simple circulation of commodities, I have categorized this circulation of capital as an expanded circulation of commodities. The former does not experience the proliferation of value, whereas the latter experiences the proliferation of value. The process of going from a simple circulation of commodities to an expanded circulation of commodities is a process of the progress, rather than the retrogression, of the commodity, economy. Nevertheless, for a long period of time, this proliferation of value has been comprehended merely as a peculiar phenomenon of capitalism. Conversely, the simple circulation of commodities for the satisfaction of needs has been regarded as a socialist objective of struggle, thus setting the proliferation of value against the satisfaction of needs. In point of fact, Lenin said a long time ago: "Profits satisfy needs too." Profit is precisely a pattern of the transformation of surplus value.

Now we shall take a look at how Marx analyzed the circulation of capital. He cited an example to explain the circulation of capital. In the circulation of capital, currency becomes currency plus currency, namely, 100 yuan becomes 100 yuan plus 10 yuan. The 110 yuan, if used up as currency, stops functioning and is no longer capital. If the 110 yuan is withdrawn from circulation, it solidifies into stored-up currency and will not yield a single dime, even if it were stored up until the end of the world. Therefore, if it were a question of the proliferation of value, then both the 110 yuan and the 100 yuan would need to multiply their value. Currency, as its movement comes to an end, starts to move again. For this reason, the ending of each cycle, in which purchases are accomplished for the purpose of sales, marks the spontaneous beginning of a new cycle. The circulation of capital is therefore aimed not at gaining profits once but at striving to secure an unending movement of profits. Like a snowball, it keeps proliferating its value.

Already we have stated that the proliferation of value is not a peculiar phenomenon of the circulation of capital but a common phenomenon of the developed circulation of commodities. Socialism is also based on a developed circulation of commodities, and therefore it certainly must proliferate its value. This is because value in this respect has become the main body of a process, in which value adopts continually and alternately a currency pattern and a commodity pattern to change its magnitude and to achieve self-proliferation out of surplus value and original value. Since it is a movement of value that creates a movement of surplus value, the proliferation of value is precisely the self-proliferation of value. Value possesses a unique ability to create value, because it is value in itself.

It is definitely this proliferation of value that has rendered possible the appearance in the Shenzhen Industrial Development Corporation of a "snowballing" phenomenon of funds of more than 200 million yuan being accumulated in just over a year. We must therefore study well the Marxist theory of the circulation of capital and use it for the construction of our socialism.

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NATIONAL POLICY AND ISSUES

FUJIAN FORGES AHEAD IN ELECTRONICS PRODUCTION

OW191055 Beijing XINHUA in English 1030 GMT 19 Mar 85

[Text] Fuzhou, 19 Mar (XINHUA)—Fujian Province, whose electronics industry leapfrogged from the nation's eighth place in 1983 to sixth last year, is forging ahead in this sector, provincial officials said here today.

The total output value in the first two months of this year reached 213 million yuan, 2.2 times that of last year.

The number of major products including televisions, radio-cassette recorders and microcomputers turned out in the first two months was double that of last year, but the industry still cannot keep pace with increasing market demand.

The province plans to double last year's total output this year.

It produced 970 million yuan-worth of electronic products last year, a more than 100 percent increase over 1983.

Fujian signed 28 contracts with foreign firms to import advanced technology and equipment last year; twenty out of the 29 planned projects have already gone into operation and will help add 180 million yuan to the provincial industrial output value.

Fujian's 100-odd electronics factories, four research institutes, three corporations, four Sino-foreign joint ventures and 12 joint enterprises between Fujian and other provinces attach great importance to raising quality while developing new products.

Altogether, 53 new primary products and 53 new electronic components went into mass-production last year, adding 95 million yuan to the industrial output value.

An exhibition of advanced foreign electronic products and equipment, a showcase of the world electronics industry, was recently held in Fuzhou, capital of the province. More than 300 scientists and technicians from across the country were invited to visit the one-week show.

CSO: 4010/111

NATIONAL POLICY AND ISSUES

CHINA HOLDS TALKS WITH U.S. COMPUTER FIRM

HK170352 Beijing CHINA DAILY in English 17 Mar 85 p 2

[Article by staff reporter Zhu Ling]

[Text] Burroughs Corporation, one of the leading U.S. computer manufacturers, is pressing to expand business ties with China, including joint production of advanced model computers.

The American firm is currently discussing with Huafeng Industrial Corporation of China the possibility of launching joint ventures to produce large-scale computers. Burroughs officials said they stand ready to cooperate with Huafeng in developing software for a banking information network, said Zhang Zhenlin, Huafeng's general manager.

The offer coincides with an effort by China's electronics industry to import new technology to improve the quality of domestically manufactured computers.

Zhang also said that a service center for Burroughs' products will soon be established in Beijing to provide training for clients in operation and maintenance. A warehouse to stock Burroughs' spare parts valued at \$500,000 will also be constructed.

Currently, there are more than 30 Burroughs' customers in China.

Business relations between Burroughs and Huafeng have been progressing fruitfully over the past 4 years. A new milestone was reached on Wednesday when a large computer network system imported from Burroughs last year went into operation at Huafeng's computer center. It is China's largest imported computer system and signifies a new step forward in transfer of advanced technology from the U.S. to China, said Wang Zhengzhong, the center's deputy director.

The system includes a computer capable of 2.5 million operations per second with a main memory function of six megabytes. The main computer is connected to four small computers, six small branch systems and 34 micro-computers located elsewhere in the capital.

The system allows direct links between all its users so that they can share information stored anywhere in the network.

The computer is programmed to assist scientific research, design work, business management, data collection and information sharing systems.

Last December, Burroughs signed a contract with an electronics equipment factory in Yunnan Province for joint manufacture of microcomputers. Under the contract, 4,500 microcomputers will be produced in 2 years, said David Chien, account manager of Burroughs Asia Ltd.

China produced more than 20,000 microcomputers in 1984 for use in more than 10,000 civil projects.

According to an earlier report in CHINA DAILY, the Ministry of Electronics Industry has announced its intention to eventually establish a nationwide computer network. More extensive use of micro-processors must be considered a vital step in the country's technological revolution, the ministry said.

It also said that the electronics industry has become one of the fastest-growing sectors in China's economy. China's electronics industry did 24 billion yuan worth of business in 1984, netting a profit of 10.8 billion yuan. The ministry plans to make the electronics industry an 80 billion yuan business by the turn of the century, tripling last year's figures.

CSO: 4010/106

PROVINCIAL AFFAIRS

CPCCC STANDING COMMITTEE MEMBER PROPOSES CHANGES IN SERVICE TRADES

HK130359 Beijing CHINA DAILY in English 13 Mar 85 p 4

[Text] Beijing's journal SOLIDARITY carried an article on the underdevelopment of Beijing's service industry. The article was written specially for the paper by Sun Yeuqi, member of the Standing Committee of the Chinese People's Political Consultative Conference. Its highlights are as follows:

Despite improvements in recent years, the progress of the service sector has been far from sufficient to meet the needs of Beijing's 9 million residents and the daily floating population of 700,000. Shortages of restaurants, tailors, hotels and bathrooms cause great vexation.

Incorrect economic policies in the city are mainly to blame.

Beijing City Government has long neglected the development of the service industry, considering it unprofitable. The policy of "turning Beijing from a consumer-oriented city into a production city" and "production first and living second" has resulted in serious imbalance. According to 1983 city records, manufacturing industry accounted for 60.4 percent of the city's total output value while the service industry made up only 32 percent. In advanced industrial countries, the proportion of service industries often reach more than 70 percent.

Thus the development of the service trades has not been part of the city's economic programme. The resulting lack of investment has caused the contraction of this sector.

According to city government records, there were more than 20,000 restaurants in Beijing before 1956 and only 700 remained in 1979. In 1955, the city had 59,000 shops but the number dropped to 14,000 by 1979, though it rose again to 53,000 in 1984. The shortfall is further emphasized by the growth of Beijing's population, which was only 3 million in 1953.

Over the past 30 years, the city has practised a closed policy in an attempt to restrict the numbers of people coming into the city, hoping thus to solve the problem of shortages.

After 1979, the city became open to everyone and the number of people coming in and out has been growing rapidly.

The city government began to draw up plans for changes after 1979. But many problems remain to be solved.

First, some of the overwhelming emphasis given to manufacturing industry needs to be gradually shifted to the development of the service sector.

Second, the outdated administrative system of the city government has restricted the rapid development of the industry. Although the state encourages work units and individuals to set up service outlets, there is no special office to examine and approve the large number of applications.

Too much interference from various government offices and officials also makes the approval of applications very slow and difficult.

Beijing No 3 textile factory, for example, wanted to turn the basement of its apartment building into a hotel for visitors to Beijing. They had to wait 6 months before the application was approved because 24 official seals were required.

They have now started business, but still have many problems, such as getting food supplies for the dining room or changing the entrance from the back of the building to the front. "God knows how long we have to wait and how many seals are needed before we can have an entrance in the front so that people can find us more easily," factory workers said.

Beijing City Government has not provided enough land for the service trades. When land is available, it is often impossible to use it because residents refuse to move.

The following reforms are essential for a rapid growth of the service industry:

An organization in charge of examining and approving applications for opening up service businesses should be set up to simplify application procedures.

The industry should be allowed more flexible price policies to encourage competition.

Taxes on service trades should be more adaptable, in order to encourage more people to set up service outlets. This tax policy should be publicized.

Detailed plans of the city's available land should be made and special areas allocated for service trades.

Special regulations prohibiting government departments from setting up service outlets or using their power to exact money from local service businesses should be stipulated. The sphere of responsibility of administrative organs must be clearly stated.

CSO: 4020/151

PROVINCIAL AFFAIRS

ZHEJIANG'S ECONOMY ACHIEVES STEADY GROWTH

Hangzhou ZHEJIANG RIBAO in Chinese 23 Aug 84 p 1

[Article: "Zhejiang Advances in Economic Growth"]

[Text] Since the PRC was founded, Zhejiang's domestic economy has developed by leaps and bounds. The gross value of social output in 1983 was 18.1-fold greater than 1949, representing a 17.8-fold increase in gross value of industrial and agricultural output and up by 11.6-fold greater in per capita income. The gross value of social output in 20 days is now equal to that of all of 1949, while the per capita income in 29 days equals the per capita income of all of 1949.

Before liberation, Zhejiang's material and technological foundations were unsound, with its production capacity concentrated in Hangzhou, Ningbo, Wenzhou and other coastal areas. Since the PRC was founded, large-scale capital construction and technological reforms have been undertaken. From 1950 to 1983, altogether 19.9 billion yuan were invested in fixed assets, with 14.6 billion yuan in new fixed assets. Distributed over the length and breadth of the province, rapid economic growth has taken place in economically backward areas as well as small towns, with the distribution of production facilities developing rationally by stages.

On the basis of developing production, profound changes have occurred in the economic structure. Agriculture has developed from an emphasis on grain production to multipurpose development of agriculture, forestry, cattle raising, sideline occupations and fishery. Through reforms and development, light industry has gradually extended to include all lines. Heavy industry has developed from nothing to something, followed by the subsequent setting up of industrial departments of electric power, petrochemical engineering, metallurgy, coal mining, machinery making, chemical engineering and building materials etc. At present, the proportion of agriculture, light industry and heavy industry has changed from 70.3, 26.8 and 2.9 percent in 1949 to 34.5, 41.5 and 24.0 percent respectively, initially forming a production structure placing the main emphasis on agriculture and light industry as well as to some extent on heavy industry.

Since the Third Plenum of the 11th CPC Central Committee, the economic development of Zhejiang has been considerably accelerated. In the 5 years

from 1978 through 1982, the gross value of industrial and agricultural output doubled. In the 5 years from 1979 through 1983, the gross value of industrial and agricultural output as well as the per capita income of this province on the average advanced at 11.8 and 12.7 percent respectively, up by 6.6 and 7.0 percent compared with the previous 26 years.

1266

CSO: 4006/3

PROVINCIAL AFFAIRS

BRIEFS

SHANDONG GOLD EXTRACTION PROJECT--China's first large project for extracting gold from the waste of sulphuric acid had been completed in Rushan County, Shandong Province, and passed the technical assessment of the Ministry of Metallurgical Industry on 5 February. With a daily capacity to treat 12,000 tons of sulphuric acid waste and extracted more than 1,000 liang of gold, 50 kg of silver, and 1,800 tons of fine iron from sulphuric acid waste as of 15 February. [Summary] [Jinan DAZHONG RIBAO in Chinese 27 Feb 85 p 1 SK]

CSO: 4006/470

ECONOMIC DEVELOPMENT ZONES

SHANGHAI FOREIGN TRADE TALKS OF MARCH 1984 SUMMARIZED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 8, 27 Aug 84 pp 49-51

[Article by Xie Huiming [6200 1920 7686]: "A Look at How To Bring into Play the Enthusiasm of the Port From the Practice of the Shanghai Foreign Trade Talks"]

[Text] With the approval of the Ministry of Foreign Economic Affairs and Trade and the Shanghai Municipal People's Government, the Shanghai Municipal Foreign Trade General Co hosted the 1984 Shanghai Foreign Trade Talks, which was held from 1 to 10 March at the Shanghai Exhibition Hall. The talks were filled with the enthusiasm of the distinguished guests. Over 2,000 businessmen from 52 countries and regions of the 5 continents in the world came to discuss business of all kinds. The talks were lively, buying and selling were brisk, export transactions concluded were nearly two-fold more than the original quota, and import transactions concluded also totaled more than \$10 million. Agreements have also been reached on projects involving technological imports, joint ventures and cooperative production. The talks concluded successfully and reached the expected goal. The various sectors all reported favorably on the talks. The practice of the talks on this occasion showed that, while strengthening the centralized and unified leadership in foreign trade, it is of great importance to give full play to the enthusiasm of the local foreign trade units, especially the coastal ports. Holding local foreign trade talks is an important form of mobilizing and giving play to the central role of the ports. It can bring into fuller play the multifunctional role of foreign trade, which will be favorable to further raising the comprehensive economic results and establish the conditions for creating a new state in foreign trade development.

I. Mobilizing and Giving Play to the Enthusiasm of Both the Central Authorities and the Localities Constitutes an Important Reason for the Success of the Talks on This Occasion.

The talks on this occasion have, from beginning to end, won the vigorous support and assistance of the Ministry of Foreign Economic Affairs and Trade and the various concerned units and enterprises under the ministry. The Ministry of Foreign Economic Affairs and Trade not only approved of the report to hold the talks in Shanghai, but appointed special personnel to attend the talks to understand the situation and offer guidance in work. The concerned specialized

import-export general companies also rendered support and assistance. For instance, in industrial production, Shanghai was in urgent need of importing a batch of crude copper. According to regulations, this should be handled in a unified manner by the China Hardware Import-Export General Co. During the Shanghai Foreign Trade Talks, the price of copper on the London Market was expected to rise sharply. If the metal was not imported in time, industrial production in Shanghai Municipality would be affected. Furthermore, the rise in the price of copper would be unfavorable to us. Under such circumstance, the Shanghai Municipal Foreign Trade General Co entered into talks with the China Hardware General Co. With the vigorous support of the hardware general company and under the prerequisite of a unified price, a batch of crude copper was imported without delay. After the import, the price of copper rose steadily. In just 1 month, the price of every ton of copper was up by \$100. Again, for instance, in light of their different situations, the China Textile Products Import-Export General Co and the China Native and Livestock Products Import-Export General Co also flexibly handled business problems concerning certain commodities at the Shanghai port and promoted the conclusion of transactions. In addition to organizing business talks with concerned customers attending the talks, the Hong Kong Huarun Co and the Macau Nanguang Co also explored the aspects of joint venture and cooperation with various concerned sectors of Shanghai Municipality, and did much work in further developing the cooperation between Shanghai, Hong Kong and Macao in the future.

II. Give Play to the Role of Foreign Trade as the "Main Force" by Uniting the Various Foreign Economic Affairs and Trade Units and Strengthening the Centralized and Unified Effort in Dealing With the Outside World.

Attending the 1984 Shanghai Foreign Trade Talks were the various units under the system of the Ministry of Foreign Economic Affairs and Trade, such as the Shanghai Municipal Foreign Trade General Co and its branch companies, as well as the joint industry-trade foreign trade companies such as the Shanghai Municipal Toys Co, the Machinery Equipment Co, the Handkerchief Co, the Meters and Electronics Co, and the Jinshan Joint Trading Co. The Shanghai Municipal Investment and Trust Co, the Patriotic Construction Co, the Jianhua Co, the Joint Trading Co and the Shanghai Joint Woolen Textile Co, Ltd, a Shanghai-Hong Kong joint venture, also attended the talks. Also attending the talks on this occasion were some foreign trade enterprises stationed in Shanghai that were under central and ministerial jurisdiction, such as the Shanghai Branch Co of the China Shipping Industrial Co and the Shanghai Branch Co of the China Aviation Technology Import-Export Co.

In accordance with the principle of unity in facing the outside world, the talks strengthened the work in respect to facing the outside world in a centralized and unified manner. The various branch companies under the Shanghai Municipal Foreign Trade General Co have given full play to their role of the "main force" as the units in charge. On the one hand, they actively conducted business talks and introduced customers to their fraternal economic and trade units in order to bring about development of the latter's business. On the other hand, they strengthened the unified coordination in respect to commodities, prices, market and customers, thereby enabling the talks to maintain a lively and unified atmosphere without rivalry among one another. Because the

talks provided without discrimination the grounds for exhibition and talks for the units which were not under the foreign economic affairs and trade system as well, and because the Shanghai Foreign Trade General Co and its branch companies offered support and assistance, some newly established foreign trade units were able to make friends on a broad scale, develop trade, expand their influence and obtain experiences during the talks. The Shanghai Municipal Patriotic Construction Co and the Shanghai Municipal Meters and Electronics Import-Export Co were able to conclude export transactions in their first participation in the talks. Also attending the talks for the first time, the newly-established Shanghai Joint Trading Co successfully concluded talks on some joint ventures and cooperation projects, and signed documents of intention regarding some projects. The China Jinshan Joint Trading Co found a buyer for glacial acetic acid at the talks and signed export contracts accordingly. Thus, those foreign trade units which were not under the foreign economic affairs and trade system were quite satisfied with the talks and hoped that they would be invited to talks in the future.

III. Persevere in the Principle of Integration Between Industry and Trade, Import and Export, and Technology and Trade, and Bring into Play the Multifunctional Role of Foreign Trade.

The Shanghai Foreign Trade Talks on this occasion has made its preliminary breakthrough in the traditional style that foreign trade involves purely import and export buying and selling, and has shifted to a new path of giving full play to the multifunctional role of foreign trade and of consciously establishing a close tie between foreign trade development and economic development.

In order to take raising economic results as the key, have a firm foothold on developing production and consolidating and developing foreign markets for our export commodities, the talks proposed the principle of persevering in the integration between industry and trade, between technology and trade, and between import and export. Because we have paid attention to the three integrations in a proper manner, given full play to the multifunctional role of foreign trade, and made use of such characteristics of the talks as wide contacts, large number of customers, quick access to information and fast feedback, we have emphasized the opportune moment, carried out work actively and scored relatively good results. In respect to the integration between technology and trade, first, we have mastered the market trend without delay, launched technological exchange and obtained feedback on information without delay. For instance, internationally, (?methylsulfonylmycin [jiafeng meisuo 3946 4277 7199 4792]) has replaced the toxic chloromycetin. After obtaining the news at the talks, the factories studied and developed a new product without delay. Second, we have enabled the integration of trade and the import of technology to promote the upgrading and updating of our products. For instance, at the talks, the foreign trade and industrial units and Australian customers have agreed to a joint venture of \$6 million to import leathermaking technology and equipment, which raised the quality and prices of our export leather shoes and leather products. In respect to the integration of industry and trade, we further developed the six joint efforts between industry and trade (joint development of product, joint formulation of

programs, joint talks and conclusion of transactions, joint effort in investigation and study, joint fulfillment of contracts to foreign countries, and joint effort to raise results). The industrial and trade parties established mutual understanding and mutual accommodation, supported each other, helped each other, made prompt decisions, and concluded many transactions without delay. For instance, the Shanghai Municipal Textile Products Import-Export Branch Co and the Shanghai Municipal Yarn-dyed Fabric Industrial Co brought up a compensation case due to products of poor color quality for Japanese businessmen. At the talks, unanimous agreement was reached and the case concerning the customers was solved on the spot. In addition, quality was guaranteed for the future and special factories were assigned to handle production. Our customers not only dispelled their misgivings, but also praised our party for fast solution to problems and high efficiency in handling matters. Furthermore, they signed on-the-spot a long-term agreement of an annual supply of 1.44 million yards with our side. The Yemen Victory Co of Arabia came to Shanghai for the first time to trial-order our commodities. It wanted only small quantities of certain goods. For instance, it wanted to place orders for only 20 dozen of some varieties of clothing. Under the support of the industrial sector, the foreign trade sector also made an exception and accepted the request of the customer and hastened the conclusion of transactions. In respect to the integration of import and export, the talks on this occasion have also made discoveries. For instance, we discussed with Japanese clients the import of stainless steel to our country and the export of oxygen tanks to Japan. We discussed with our Norwegian clients the import of soda ash and chemical fertilizer to our country and the export of calcium phosphate from our country. We concluded a reciprocal trade agreement with the clients of the FRG on importing commodities of a definite amount to our country and guaranteeing the export of a definite amount of commodities to their country. The Continental Co of the FRG reported that the talks on this occasion involved both imports and exports, the methods of which were very good. Our companies also followed the same methods.

The Shanghai Foreign Trade Talks on this occasion covered a wide scope, with diverse modes and flexible methods. Besides the regular export and import transactions, we also launched all kinds of business activities involving feeding exports with imports, integrating imports and exports, reciprocal trade, goods exchange trade, joint ventures, cooperative production, technological imports, processing of imported materials and compensation trade. All greatly convenient and attractive for our guests, gave full play to the multi-functional role of foreign trade, consciously integrated in a functional manner foreign trade and economic development, and integrated opening to the outside world with revitalizing the economy at home. This has not only increased the amount of import-export transactions at present, but more importantly has played a definite role in promoting the industrial and technological transformation and the social and economic development of Shanghai Municipality. In addition, all this will in turn lay the foundation and create the conditions for quadrupling the value of Shanghai's foreign trade output in the future, and will open up a new path for the creation of a new state in Shanghai's foreign trade.

ECONOMIC DEVELOPMENT ZONES

SHANGHAI FOCUSES ON IMPORTATION OF TECHNOLOGY-INTENSIVE INDUSTRIES

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 7, 27 Jul 84 pp 51, 17

[Article by staff reporter Zong Ruiyu [1350 3843 3768]: "Shanghai City's Minhang Economic Development Zone Under Construction"]

[Text] During the Qing Ming Festival, in areas south of the lower reaches of the Changjiang River, spring was very much in the air. And sprinkling on the faces of the men were the unbroken spring rains that brought to humanity a feeling of the vitality and fullness of life. It was in the midst of drizzling and dimming rains that the reporter visited Xie Wuyuan [6200 2976 0337], general manager of the Shanghai City's Minhang Economic Development Corporation.

Minhang is no stranger to people who are well acquainted with Shanghai. It was originally named Mingang or Minhang. Just as its name implies, Minhang is an important seaport situated by the Huangpu River. It is located in the southwest of Shanghai City, 130 km from the center of the city. Minhang has adequate land and water communications, with 3,000-ton ships sailing upstream directly to the economic development zone. In land communications, it has a branch line of the Xinmin Railway linked to the Shanghai-Hangzhou Railway. In highway transportation, it has a trunk line of the Shanghai-Minhang Highway leading directly to the core of the city. Since the founding of New China, Minhang established a relatively good industrial base. Already set up in the economic development zone are factories for heavy-duty machinery, power station equipment, water pumps, rolling bearings, power-driven tools and prefabricated construction components.

General manager Xie, enthusiastic and hospitable, is a man in the prime of life. Commenting first on the question of why the Minhang Economic Development Zone had to be established in Shanghai City, he said: "Ever since China's implementation of an open-door policy, the State Council has set forth a new demand on Shanghai--an industrial base and an important seaport of foreign trade. It has vested Shanghai with greater powers of management over foreign trade, the utilization of foreign capital and the importation of new technology. Therefore, the Shanghai municipal people's government has decided to build in Minhang an export industrial zone--the Minhang Economic Development zone."

General manager Xie stood up and walked toward a model of the Minhang Economic Development Zone. Pointing at a vast stretch of chimneys on the model, he said to the reporter: "This is the whole scope of the Minhang Economic Development

Zone, the industrial zone projected for establishment and the livelihood services zone...." Then, pointing at the model, he presented a detailed introduction to the projections for the entire Minhang Economic Development Zone:

Located in Minhang's western sector, the Minhang Economic Development Zone occupies a projected land area of approximately 312 hectares (excluding residential areas), which include 50 percent of the land for factories and enterprises, 5.5 percent for warehouses, 5 percent for roads, 5.7 percent for management and training service centers, 6 percent for service facilities and 24 percent for afforested areas.

The economic development zone is integrated with natural topography. Land for use by factories and enterprises has preliminarily been projected and divided into three sectors--A, B and C--which are again cut into 97 small plots (each plot measures about 1 hectare) to facilitate the selective use of the land by investors.

Building plans of the economic development zone provide investors with favorable conditions for the construction of factories:

- (1) The development zone has a relatively perfect municipal administration and basic engineering facilities for public use. It plans to build or expand waterworks, telephone offices, sewage treatment plants and gas storage tanks.
 - (2) The development zone has a corresponding management center and facilities for production and services. In order to make it easier for foreign traders to establish business contacts and in order to simplify procedures, there will be a "management center" embodying in concentrated form China's relevant government agencies, foreign trade enterprises, public utilities, banks and post offices.
- In addition, there is also a technological training center for servicing the development zone's factories and enterprises in the areas of unfolding technological activities and training staff and workers.
- (3) The development zone has relatively good facilities for providing livelihood services.

Planned to be built in the development zone are guesthouses, restaurants, tea-houses, stores, cultural recreation establishments and taxicab service stations. Also projected for construction in the afforested sector are apartments and residential houses, either for sale or for rent.

General manager Xie went on to talk about the key industries projected for construction in the development zone. He said: "Shanghai, a coastal city possessing a definite technological base, will focus on the importation of technology-intensive and knowhow-intensive enterprises, such as the modern enterprises of electronics, instruments and meters, clocks and watches, toys, apparel and foods. Most highly welcomed are the factories and enterprises that possess advanced technology and equipment, that manufacture products that can readily adapt to exports and that are economical in energy consumption. Products are mainly for export, but the sale of a portion of the products inside the country are not excluded."

Commenting on the current planned speed of construction, general manager Xie said that the development zone, which started in July 1983 with the participation of 11 construction brigades, now has installed a 30-km-long pipeline and completed the paving of a 5-km-long primary road surface. He said that the Minhang Economic Development Zone was adopting a measure of simultaneously carrying out construction and receiving investors. Pointing to a corner of a drawing, he said to the reporter: "Look, the building of Sector A (0.25 square m) has been completed and is now ready to welcome foreign investors."

Referring to current talks with foreign businessmen, general manager Xie stated that the Minhang Economic Development Zone had just started making contact with foreign firms and that so far it had received about 500 persons. Among the foreign businessmen were industrial and commercial entrepreneurs from Japan, the United States and the West European countries as well as fellow countrymen from Hong Kong and Macao. After preliminary talks, one agreement was signed, three other agreements will be signed soon and other agreements are still being discussed. General manager Xie expressed his belief that because of Shanghai's relatively superior foundation and its years of experience in foreign economic and technological cooperation, the Minhang Economic Development Zone would definitely achieve a fast growth. He is now preparing to visit Japan for talks with the Japanese industrial and commercial enterprises on matters concerning their investment in the establishment of enterprises in Minhang. General manager Xie also cheerfully expressed his welcome to investments in Minhang by the industrial and commercial entrepreneurs of other countries in the world.

The Minhang Economic Development Zone had just started, yet general manager Xie was so full of enthusiasm and faith at the time of presenting an introduction. In the course of the dialogues, he spoke with fervor and assurance, gazing with loving care and profound affection at the model of the Minhang Economic Development Zone. He seemed to have heard already the rumbling of machines and the flashing of rows of red pilot lamps. Immediately the reporter was enlightened. Why was he so confident? It was because of his participation in an entirely new undertaking that would lead China to a glorious future of modernization and because of his firm conviction that his undertaking would definitely achieve fruitful results.

When saying good-bye to general manager Xie, the reporter and his two accompanying comrades of the Shanghai export-import trade unanimously wished the Minhang Economic Development Zone prosperity and greater achievements.

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CSO: 4006/30

ECONOMIC DEVELOPMENT ZONES

QINHUANGDAO ENCOURAGES FOREIGN INVESTMENT

OW160850 Beijing XINHUA in English 0705 GMT 16 Mar 85

[Text] Qinhuangdao, 16 Mar (XINHUA)--Qinhuangdao in Hebei Province has signed the first batch of 26 contracts with foreign businesses since it was authorised to open wider to the outside world along with 13 other coastal cities last year, according to the city authorities.

The contracts, worth \$US150 million, cover purchase of equipment, joint ventures and co-production projects. They were signed with businessmen from 13 countries and regions, including Japan, the United States, Britain and Hong Kong.

The city plans to boost light industry, trade and tourism simultaneously. Foreign funds will be used to update its glass, electronics, machinery, textiles and food industries, as well as handicrafts. Tourism, commercial, trade and banking facilities will also be built.

Preparations are under way for opening two development zones, one for technology and one for tourism. Most of the cooperative schemes and enterprises with exclusive foreign investment will be built in the two development zones.

In the meantime, the city has drawn up regulations to protect capital, profit and legitimate rights of investors.

CSO: 4020/149

ECONOMIC DEVELOPMENT ZONES

BRIEFS

LIAONING DALIAN DEVELOPMENT ZONE--Thus far, construction of the Dalian Economic and Technological Development Zone, Liaoning Province, is developing smoothly and rapidly. By the end of February this year, the zone had signed 5 contracts on Chinese-foreign cooperation projects, 15 agreements and 32 agreements of intention, with a total investment of 480 million yuan. Within this year, construction will begin on 30 projects and 5 projects will be completed and put into production. [Summary] [Shenyang Liaoning Provincial Service in Mandarin 1030 GMT 8 Mar 85 SK]

CSO: 4006/454

ECONOMIC PLANNING

BEIJING PLANS 'MASSIVE EXPANSION' OF SERVICE TRADE

OW050908 Beijing XINHUA in English 0835 GMT 5 Mar 85

[Text] Beijing, 5 Mar (XINHUA)--Beijing authorities are planning a massive expansion of service trades in the capital this year, according to the municipal government.

Steps have been taken to encourage thousands of shops, restaurants, tailors, repair centers and other services to open along major roads all over the city.

Some 2,700 new businesses in the service sector were set up in Beijing in January alone, and the authorities hope to encourage another 7,300 by the end of the year. Last year, about 4,700 opened, including 600 restaurants.

One major new measure just announced by the municipal government requires all workplaces with suitable premises along main streets to turn them over for use as shops or other service centers.

The ground floors of all new residential buildings must be used commercially. This should make shopping more convenient for local people.

In recent years, the city has been encouraging individuals and collectives to run more service trades.

Individuals are now running 4,900 service businesses in the city--170 times the number in 1978.

A recent survey of 10 collectives showed that 560 of the 700 enterprises affiliated to them are running 1,100 restaurants, tailors and electrical repair services.

Peasants around the city are also joining in the development of the service sector.

Fifty-nine hotels financially backed by peasants have been included in the city development plan, of which four have already been built.

CSC: 4020/141

AGGREGATE ECONOMIC DATA

SHANGHAI OFFICIAL REPORTS ON ECONOMIC PROGRESS

OW161016 Beijing XINHUA in English 0589 GMT 16 Mar 85

[Text] Shanghai, 16 March (XINHUA)--Economic reform has brought about a change in Shanghai's economy, according to Vice-Mayor Zhu Zongbao.

Speaking at a municipal conference here, Zhu said many industrial departments were improving management, upgrading old technology, signing cooperation deals with other provinces and producing more market-oriented goods.

Managers of 61 state-run factories have enjoyed much wider decisionmaking powers on a trial base since last year. Another 150 small state-run factories have become self-management units which assume sole responsibility for their profits or losses, and a number of larger enterprises are testing methods that link wages with output.

Shanghai last year invested about 2.2 billion yuan in upgrading state-run plants. It signed technical cooperation contracts with foreign firms worth 620 million U.S. dollars in 1983 and 1984.

As a result, the output value of its 1,700 major state-run factories rose 6.5 percent last year over 1983. Revenue from taxes and profits also went up by 175 million yuan, making it the first time since 1981 that the municipality managed to raise output while avoiding a drop in taxes and profits.

A 3-year program has been drawn up giving priority in new technical upgrading to factories making domestic electrical appliances, radios and televisions, food, cameras, textile machinery, knitwear, and semi-conductors.

Shanghai accounts for one-ninth of China's industrial output value and one-sixth of its total industrial revenue.

Zhu said the city concluded 83 contracts on Sino-foreign joint ventures, cooperative enterprises, and enterprises with sole foreign investment by the end of last year. Shanghai directly used about 860 million U.S. dollars in 1984.

It has also launched more than 400 joint ventures with 23 Chinese provinces and autonomous regions, and signed cooperation deals with more than 100 cities and counties.

In 1984, the East China Industrial Center signed 779 cooperative pacts with other parts of China, a jump of nearly 90 percent over 1983.

15 April 1985

ECONOMIC MANAGEMENT

JOURNAL ON GOVERNMENT FUNCTIONS IN ECONOMIC MANAGEMENT

HK260000 Beijing JINGJI GUANLI in Chinese No 1, 5 Jan 85 pp 8-12

[Article by Liao Jili [1675 1323 4539]: "Correctly Develop the Government's Role of Managing the Economy"--edited by (Liu Qichang [0491 0366 2490])]

[Text] The decision of the 3d Plenary Session of the 11th CPC Central Committee on reform of the economic structure clearly advocated separation of government from enterprise functions so as correctly to bring the government's role of managing the economy into full play. We should intensively study and understand this and consciously implement it in actual practice. From looking at many years' experiences of actual practice, I believe that to do a good job in solving this problem we should handle well the following three relations:

I. Relations Between the State's Political Functions and Economic Functions

Separating government from enterprise functions refers to separation of the functions of government organs for managing the economy from the functions of the enterprises. It does not refer, in a general or superficial way, to the sphere of the functions of government organs. This sphere of the functions of government organs has a much wider scope, the main body of which is political functions and economic functions. These two categories of functions have their common points as well as their points of difference. The so-called common point is that both belong to the realm of state control; both are the control functions exercised by state organs in representing the interests of the broad masses of people and in accordance with the principle of democratic centralism. The so-called difference is that because the nature of the political functions and the nature of the economic functions are different, the tasks, organization, contents, methods, and tendencies of both all differ from each other. The political functions are a kind of governmental work which aims to solve the problems of enforcing democracy among the people and enforcing dictatorship over the enemies. They use administrative zones, an administrative system, administrative subordinate relationships, and the administrative management method of issuing orders and directives from top to bottom in carrying out their work. Hence, they emphasize vertical relations. The economic functions aim to solve the problems of managing the economy in accordance with objective economic laws. They are based on the principle of the internal relations of the economy and economic activities, and require the organization of economic activities through breaking the administrative zones, administrative system,

and administrative subordinate relationships, laying the emphasis on horizontal relations. For a prolonged period, we have neglected the differences between these two functions and erroneously believed that regardless of whether they were political functions or economic functions, they were both functions exercised by government organs and the two were identical. Moreover, we placed the economic functions in a subordinate position to the political functions and performed the economic functions in accordance with the same set of administrative measures applicable to performance of the political functions. As a result, there emerged the problems of politics replacing economy government replacing the enterprises, and economic management violating the objective economic laws.

Due to the economic functions being subordinate to the political functions, the productive forces have had to serve production relations, while economic activities must follow the [methods?] of political struggles. In this way, the economic structure of our [words indistinct] economic laws. This pattern is basically one which does not demarcate between the duties and functions of the government and those of the enterprises, the respective spheres of influence of departments and localities, excessive centralization, and using administrative measures to manage the economy.

The first special feature of this pattern is the simple conversion of enterprises under the system of ownership by the whole people into enterprises under the state's direct operation and management. It erroneously considers whatever type of economic management the particular system of ownership calls for, bringing about the non-separation of the functions and responsibilities of the government and enterprises and non-separation of the rights of ownership and operation, making socialist enterprises appendages of administrative organs and causing them to lack vitality, and thus making the socialist economy lack vitality. At the same time, it looks at the system of ownership by the whole people as the only advanced economic strength in socialism and demands that the various kinds of economic forms must change over to the system of ownership by the whole people. Hence, collective economy is edged out and attacked, or "its shoots are helped to grow by being pulled upward," rising to the status of ownership by the whole people.

The second special feature is that planned economy and commodity economy are placed in antithesis to each other, stressing only planned economy to the exclusion of commodity economy. There is little doubt that in a society where the socialist system of public ownership absolutely dominates, planned economy must be enforced. However, in socialism's different stages of historical development, planned economy must naturally have different contents and forms as determined by the level of development of the productive forces. At the present stage of our country, it is not possible to have a self-sufficient or semi-self-sufficient economy, nor is it possible to have an economy of product production and distribution. Only vigorously developing commodity production and commodity exchange will help create a social division of work and coordination and help in encouraging the advanced, eliminating the backward, facilitating scientific and technical progress, and improving the economic results. Unfortunately, in the past we took commodity production and the law of value as belonging to the realm of capitalism and, as a result, economic development lost its internal motivating force and vitality, bringing about a serious shortage of material resources and commodities.

The third special feature is that in finance, the system of unified receipts and unified expenses is practiced. All profits of the enterprises are delivered to the treasury, all losses are subsidized or given compensation by the state, and the system of responsibility for profits or losses does not exist. The enterprises of the whole country are taken as so many workshops or small units of a large factory, devoid of the power of independent business accounting. In the whole country there is only one independent accounting unit and this is the Ministry of Finance. The regulatory functions of economic levers such as prices, currency, credit and loans, taxation, profits and bonuses are excluded from the realm of production, operations and management. The results are large input but small output, poor economic results, and the people paying huge prices but failing to get corresponding benefits.

The fourth special feature is to treat the socialist labor wage system as a supply system, with everybody holding "an iron rice bowl," "everybody eating from the same big pot," and an overall practice of egalitarianism. The state takes total charge of labor employment. The result is that there are more hands than needed. In some localities, five people perform the jobs which normally only take three people. The labor productivity rate is low and the labor employment problem becomes extremely difficult to solve.

The fifth special feature is placing opening to the outside and regeneration through self-reliance in opposition to each other and carrying out a closed-door policy. For a long time it was believed that socialism and capitalism were irreconcilable and that socialist markets and capitalist markets could not trade with each other. As a result, our contacts with the outside were confined to commercial transactions of a general nature which were small in scale and in the form of "barter" trade only. We were satisfied with earning a little foreign exchange by selling small quantity of goods and we even went to the extent of seeking foreign exchange by using methods which would incur losses. As for how to expand various kinds of economic cooperation with foreign countries, how to use foreign capital and the international markets, how to introduce new technology from abroad, how to absorb foreign scientific knowledge, how to use foreign economic information, how to develop the intellect, how to train personnel, and so on, the roads were still closed, and some of the topics were not even on the agenda.

In separating government organs' functions of managing politics and their functions of managing the economy, what is the nature of the problem which it is meant to solve? It is meant to readjust and perfect the political functions and economic functions of government organs so as to better display the superiority of the socialist system. This is because these two kinds of functions exist objectively in socialist countries and need to be well displayed. Only in strengthening the political functions can we perfect the socialist political system, fully display socialist democracy, strengthen the socialist legal system, and prosecute forceful struggles against domestic and foreign hostile forces which are antagonistic to and damage socialism. Only by so doing is it possible to ensure the smooth progress of socialist construction. Strengthening the economic functions means devoting efforts to developing the social productive forces, including enlivening the enterprises, enlivening commodity circulation, increasing opening to the outside, and doing a good job of developing the

intellect and training personnel, and so forth. With the economy in good order, not only will the modernization of our country be speeded up, but our people's democratic dictatorship will also be consolidated. In the past we made political functions replace economic functions. The economic functions seemed to have been strengthened, but in reality they were weakened, because these two kinds of functions are not identical in nature. Contradictions cannot be solved by identical methods. Separation of political functions from economic functions is beneficial not only to strengthening the political functions but also to strengthening the economic functions. If the two can be mutually coordinated and can supplement and help each other, they can further help in ensuring the smooth progress of our country's socialist economic construction.

II. Relations Between Direct and Indirect Management in Managing the Economy

In the above analysis we dealt with the relations between the two kinds of functions of government organs. We shall now study the problem of how, in managing the economy, the government can handle well the relations between direct management and indirect management.

Government organs use two different methods in the management of economic life. One is direct management, that is, the state directly controls and intervenes in the production and operation activities of the enterprises; it controls all such matters as production, supply, marketing, personnel, finance and materials; its macroscopic plan is directly planted in the enterprises, and its planned targets, passed downward from above, are forwarded level by level to the enterprises, which have to ensure their accomplishment. This method of directly linking the state's economic management and the production and operation activities in strict accordance with the state plan, it will help in meeting the needs of the major construction projects. However, there are thousands of enterprises and millions of products, and social demands are particularly complicated and ever-changing. If they must all come under the control of the state, naturally the government organs will be thrown into the turmoil of having to deal with a mess of complicated and petty affairs, and will fail to attend to the more important affairs which have a bearing on the situation as a whole. Thus, its effective control of the macroscopic economy will be weakened. These difficulties of the government organs exercising direct control and management over the enterprises make it necessary to resort to management separately by departments and localities, resulting in the mushroomed growth of departments, carving up spheres of influence by departments and localities, the organs becoming bulky and cumbersome, and the layers of the government structure being repetitious. If the state takes charge in a unified manner of all the production and operation activities of the enterprises, it will necessarily mean non-separation of government and enterprises functions, and the government replacing the enterprises functions, and the government replacing the enterprises and taking the road of bureaucracy and monopoly. We must admit that in many countries, be they capitalist or socialist, the state economic management organs also directly engage in certain production and operation activities such as the railways, post, aviation, and so forth, which are frequently national establishments in nature. Their operations stretch across localities and departments and require unified control and management. However, even though these enterprises are directly controlled and managed by the state, their production and operation activities are frequently not directly determined by the state but rather chosen by the enterprises themselves in accordance with social demands and

various other conditions. In the past, due to our lack of experience, government and enterprise functions were not separate, resulting in many drawbacks. The principal drawbacks were as follows:

1. The enterprises became the appendages of the administrative organs. Whatever the administrative organs said the enterprises had to obey. Whatever was banned by the administrative organs the enterprises had to refrain from doing. The administrative organs enjoyed the power of direction and the enterprises had no decisionmaking power.
2. All economic activities had to follow the directions of the administrative organs, without any reference to the economic results. The administrative directives and administrative orders issued by the administrative organs were likened to orders from an administrative principal to its subordinates, without any consideration of the internal relationships of the economy, and were not issued with any consideration for the economic results. The consequence was that the administrative organs had the power to direct the enterprises but had no economic responsibility and, conversely, the enterprises bore the economic responsibility but had no power in production and operations. This dislocation between power and interests led to serious wastage and extremely poor results.
3. Because of the non-separation of government functions and enterprise functions, all the economic activities of the enterprises must first seek the approval of the administrative organs, whereas the administrative organs must wait for orders from above, level by level, before they can do anything. But economic life is complicated and ever-changing, and if all emerging problems must wait for orders from the administrative organs, level by level, before making a decision, then either the problems will not be handled on time, or they will be disconnected from reality. As a result, a serious state of bureaucratism will result.
4. Because of the non-separation of government and enterprise functions, the government superseded the enterprises, and the administrative organs followed the departments and the localities in carrying out their management work, while the economic activities were carried out in compliance with the departments and localities. In this way managing the economy in accordance with the departments severs the economic relations between the departments and the localities, while managing the economy in accordance with the localities likewise severs the economic relations between the localities and the departments. Splitting a socialist unified market into so many departments and localities results in each forming its own administration and its own system and in duplicate production and redundant construction, adversely affecting development of the social productive forces.

This being the case, what should be done to overcome the drawbacks of direct management and retrieve the enterprises from their status of being subordinate to the administrative organs? In our opinion, the administrative and enterprise functions should be separate from each other, and the administrative organs should change over to the use of the method of indirect management. Concretely, it should be as follows:

First, we should definitely determine the status of the enterprises as being relatively independent in commodity production and in operations, and truly release to them the decisionmaking power in production, supply, and marketing. Only through definitely recognizing the relatively independent status of enterprises in producing and dealing in commodities and liberating them from their subordinate relationship to administrative organs can they truly become economic entities which are independent, autonomous, and have sole responsibility for their own profits and losses, and can the carving up of spheres and forming blockades by departments and localities be broken up and rational horizontal economic relations be developed. This is precisely one of the objectives in the second stage of collecting tax in lieu of profits. However, it is only through an all-round conversion from delivering profits to paying taxes that the enterprises can be truly liberated from their status of being appendages to the administrative organs. After the realization of paying taxes in lieu of profit delivery, the enterprises will pay taxes in accordance with the legal provisions of the state and can freely dispose of the profits after payment of the taxes. In this way, the enterprises will extricate themselves from their relations with the higher level administrative departments in the matter of economic interests, and, following the reforms made in the planning system, the enterprises can become economic entities which are independent, autonomous, and assume sole responsibility for their own profits and losses.

Second, we should help the enterprises to fully develop their horizontal relations.

The inevitable trend in economic development is to let the enterprises fully develop their horizontal relations, promote socialized large-scale production, and expand the scale of the exchange of commodities. After the transformation of the enterprises from being subordinate to the administrative organs into acting as producers of and dealers in commodities, operating independently and assuming sole responsibility for their own profits and losses, their activities will no longer be confined to certain departments and localities. They will demand the eradication of the carving up of spheres and forming blockades by departments and localities, and will also ask for a unified socialist market inside the country and opening to the outside so as to develop relations with international markets. Faced with this situation, administrative organs at various levels should create various conditions and environments and provide to the enterprises exceptionally wide arenas for their activities. Viewed from the experiences gained in the reform of the cities and towns in foreign countries and in the past year or two inside the country, government organs, after giving up their direct management of the enterprises, should vigorously develop various kinds of civilian economic combines to coordinate the economic activities of the enterprises. To begin with, one tentative idea is to form cooperative organs such as agricultural cooperatives, handicraft cooperatives, cooperatives of individual economies, and so forth. These types of organs are generally of a mutual aid nature, helping the members to solve the problem of a shortage of funds, as well as the problems of the supply of raw materials and the marketing of products. Another tentative idea is to form federations which will coordinate the interests of the enterprises and represent them in dealing with the government, such as the federation of the iron and steel industry, federation of the chemical industry, and so forth. Still another tentative idea is to form

organs rendering various kinds of services to the enterprises such as providing economic information, reference and answering services, personnel training, and so forth. One more tentative idea is to form semi-official and semi-civilian organs representing the interests of the enterprises and also the views of the government, such as chambers of commerce, industrial and commercial associations, and so forth, which, while conveying the wishes of the government and reflecting the demands of the enterprises, play the role of linking relations between the two sides. We have seen that in Hungary, East Germany, Japan and other countries, there are many kinds of civilian economic organizations formed by enterprises at the bottom level and other levels. Hungary, through reform of the economic structure, has performed the feat of the government not directly intervening in the production and operation activities of the enterprises. This illustrates from the sideline that it is entirely possible to separate government from enterprise functions. There is no reliable basis for any feeling of concern that after separation government and enterprise functions, there would be no way to solve the problems which the enterprises may encounter.

In view of the present concrete conditions and developmental trend in our country, we believe that adopting the method of indirect management is more suitable. Hence, government control organs have a two-fold mission toward the enterprises; that is, the control mission and the service mission, but the latter should come first while the former should occupy second place, being part of the latter. In the past, government organs stood high above, acting as the director and administrator, and the enterprises had to revolve around the government organs, so to speak. This, in reality, was reversing the relations between the superstructure and the economic foundation. It is time now to turn around again and emphasize that government organs should serve the enterprises well. Development organs should carry out planning for the industries, trades and localities. Enterprises require the development of new products, so government organs should assist in opening up new technological fields for such development. Enterprises require various kinds of information and intelligence, so government organs should help in their procurement. Enterprises lack talented personnel, so government organs should help in training such personnel. Finally, enterprises require legal protection, so government organs should formulate and enact various statutes and regulations for their protection. On this basis, government organs should formulate long-range plans for economic and social development and study the long-term outlook for development and objectives as well as strategic policies. At the same time, they should study the rational geographical distribution of the economic structure and the productive forces, study the various important proportionate relationships, including the balance of gross supply and demand, balance of consumption and accumulation, social purchasing power and the available stock of commodities, balance of production funds and supply of material resources, balance of fiscal revenue and expenditure, balance of foreign exchange, balance of principal commodities and materials, and so on. In addition, it is necessary to study intellectual development, personnel training, development new technology, education and culture, construction, and so forth.

That government organs indirectly manage the economy does not mean that their power has decreased; on the contrary, it has increased. This is because their duties are no longer confined to the daily routine of attending to paper work and making sundry and petty arrangements. They have instead bypassed their

daily routine and grasped matters of importance. Hence, indirect management does not mean the lessening of work but the adding of more work, heavier, more important and more complex work. It should be noted that the separation of government and enterprise functions represents a basic change in the economic structure of our country and that it becomes the responsibility of many of our cadres to take on the supreme mission of facing and accepting, from ideology to knowledge composition and work style, a procedure of change from not being suited to gradually being suited, an enormous and tedious change of track in training and work, and a call for making renewed learning and studies. In order to synchronize with the state enforcement of a scheme of indirect management of the economy, there should be a corresponding readjustment and reform of the establishments under the government organs at various levels. The number of specialized departments should be reduced, as should the number of layers or levels of management. Only through the reform of the organs can the fruits of power delegation be consolidated. If we just talk about delegating power but make no effort to reform the organs, then it will be entirely possible for the organs to "propel" people to manage affairs. In this case, power cannot be really delegated downward, or, although delegated, it may be retrieved in another form.

III. Relations Between Departments, Localities and Central Cities and Towns

In order to realize the separation of government and enterprise functions, it is also necessary to solve the problem of the relations between departments, localities, and central cities and towns. For a prolonged period in the past, we managed the economy in accordance with the administrative system, administrative regions, and subordinate administrative relations, and relied on administrative tactics. Hence, we were skirting the relations between departments and localities and revolved around power distribution inside the state's administrative structure. When it was found that the various government departments had too many economic affairs in their hands and had too much power, which restrained the enthusiasm of the localities and brought about resentment and condemnation, the various departments of the central government relinquished a portion of their power and delegated it to the localities, but when it was found that the local governments had too much power, bringing about strong resentment from the various departments of the central government, power was again centralized in the central departments. This could go round and round. People describe the phenomenon as follows: "Once controlled, prostration follows; once prostrated, liberalization follows; once liberalized, disorder follows; and once in disorder, control follows." Why is it that this method cannot thoroughly solve the problem? It is precisely as is mentioned above--economic management and administrative control are different from each other. Administrative control places the emphasis on power demarcation, whereas economic activities stress economic interests. The former wants to exercise its power in accordance with the administrative system and abiding by the administrative zones, while the latter insists on breaking the limits of departments and localities, proceeding in pursuance of economic interests. The former demands that the lower levels obey the higher levels, while the latter requires fully arousing the enthusiasm and initiative of the economic units at the grassroots level. This is the reason placing economic activities on the track of administrative control and using administrative methods to manage the economy have

always prevented economic life from functioning normally. Economic management stresses horizontal relations. This does not mean that there are no vertical relations however; economic management also has its problems of "departments and localities." But in economics, the departments are the industries and trades while the localities are the zones. They are different from the departmental control and administrative control by localities in administration. The "departments and localities" in economic activities do not carve up spheres of interests but are closely tied to each other. Where is this combination located? It is certainly not in the departments or in the localities, but is in the cities and towns, particularly the central cities and towns. This is brought about by the special economic features of cities and towns. Historically, cities and towns, particularly central cities and towns, are the products of the development to a certain stage in commodity production and the exchange of commodities. In the modern era, due to the rapid development in communications and transport, the cities and towns have all the more become the economic centers of definite regions, and the economic activities of various industries and trades are mostly carried on in the cities and towns, particularly in the central cities and towns. Therefore, cities and towns must open to the outside, the more so the better, since the more they do so, the greater vitality and the higher competitive capacity they will have. They should open not only domestically, but also to the outside.

In order to bring into full play the role of cities and towns, particularly central cities and towns, it is necessary to change the system of largely centralizing the power of economic management in the central government departments and in the first-grade organs of the provinces. With the exception of a small number of departments (such as the postal, railway, and other departments) still directly managing the enterprises, management of the enterprises under the other departments and of enterprises under the management of the provinces should all be delegated to the cities and towns, and the cities and towns should be allowed to organize their economic activities. To suit this change, it is necessary to change the method of the level-by-level allocation and distribution of funds and material resources among the departments and provinces and to set up markets for materials and funds with the cities and towns as centers. [Word indistinct] the delegation of the control of enterprises downward to the cities and towns, the funds required may be supplied by means of bank loans. Even in the case of funds designated by the state for special use, they should likewise be paid via bank loans and the principle of compensatory use of loan funds should be enforced. It is necessary to permit and support the enterprises resorting to various ways and means to raise and collect idle funds from the social structure to use for technical transformation, rebuilding and expansion. The categories and quantities of materials subject to planned allocation and distribution should be reduced to the minimum and the great proportion of material resources should be directly placed into the market for means of production. Materials needed by the enterprises may be ordered from the materials exchange centers or purchased from the market and the materials exchange centers will organize their supply. In the case of certain materials which are handled in large quantities or are for special or constant use, the enterprises using them and the enterprises producing them may sign agreements for their supply and for the direct delivery of the goods. For certain other materials, the enterprises using them may also sign agreements with the materials exchange centers,

which will take up the task of supplying the goods. The central departments and the provinces and regions, after having retrenched and delegated their power, may now devote their main energy to other directions such as planning for the industries and trades, technical guidance, interchange of information, developing the intellect, training personnel, and so forth. The provinces and regions should perform well such jobs as those in local construction, zone planning, education and culture, and supervision over the local enterprises' observance and enforcement of policies and statutes, so as to create the necessary conditions for economic development.

Retrenchment, delegating power, and delegating the enterprises downward to the cities and towns by the central departments and localities do not mean that the original package of power of management and control is transferred en bloc to the cities and towns, nor that the limits of the administrative and management power of the city and town governments have been widened, wotherwise a new set of "localities" will emerge. It should be noted that bringing the role of the cities and towns into full play principally calls for bringing the functions of various sides of the cities and towns into full play. Cities and towns are not "localities"; rather, they are markets, socialist markets, which organize the whole process of production, distribution, exchange and consumption. Their main functions are to bring the role of guidance, cooperation, service, and supervision into full play, and they do not directly control the production, supply, and marketing activities or the personnel, funds, and materials of the enterprises. Therefore, in regard to the cities and towns themselves, they still have the problem of delegating power and retrenchment. In reality, they should truly delegate to the enterprises the power of production and operations.

The decision of the 3d Plenary Session of the 11th CPC Central Committee clearly stipulates that the reform must be carried out according to the principle of separating government from enterprise functions, retrenchment of political power, and delegating power downward. This shows the direction of correctly bringing the economic management functions of government organs into full play. The thorough implementation of this principle requires the solution of many problems leadership organs at various levels can truly shift the major part of their work to the track of developing services for production, serving the enterprises, and serving the affluent and happy life of the people, and can combine this with the study of theories, then it will certainly be possible in the not too distant future, through efforts and actual practice, to discover a new road and create a new situation.

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ECONOMIC MANAGEMENT

REGIONAL ECONOMIC, TECHNICAL COOPERATION

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[Article by Li Ruihuan [2621 3843 3883], mayor of Tianjin Municipality (Zhang Hanya [1728 3352 0068], responsible editor): "Seriously Solve the Problems in Developing Economic and Technical Cooperation Between Different Areas"]

[Text] Comrade Yaobang has said that in regional cooperation, "the potential is great indeed, but then again there are many problems that need to be solved." In the course of practice, we have come across the following problems that we think should be properly studied and solved:

The Question of Understanding

In regional cooperation, the major ideological obstacles are: First, having no desire. Influenced by "leftist" ideas over the years, some people are accustomed to relying on the state and looking to the leaders in economic work. They think that this is the right thing to do, for they can benefit without having to worry about anything or making too much effort. They regard cooperation as "a hard but thankless job" and therefore show no enthusiasm. Second, having apprehension. In the past, dishonest practices were indeed found in cooperation. Thus, legitimate cooperation was sometimes spoken of in the same breath as economic crimes. This gives people the impression that cooperation is not the correct course, and that it is an open "back door" which encourages unhealthy practices. Third, feelings of reluctance. The importance of cooperation is recognized only when something is desperately needed. When it comes to developing joint operations or transferring products and technologies, people are full of misgivings. They are afraid that things might not work out to their advantage if they lose their superiority. They think that cooperation is all right as long as they are the receiver and not the giver. Fourth, the idea that one can only make it on one's own. Influenced by the age-old habit of small production, ideas of "big and complete," "small but complete," and seeking help from no one have developed. After problems have been solved through cooperation, the conclusion people draw is not that they should continue with the cooperation, but that they cannot always rely on others and that they should strive to be all-round themselves. Aiming at these ideas, through various kinds of conferences and research projects we have persistently conducted positive propaganda and education. With cooperation achievements we have enabled people to clearly see the aim and significance of cooperation and have criticized the shopworn ideas of "seeking help from no one" and "being complete." We have made

it clear that large-scale modern production cannot do without a division of labor and cooperation among specialized departments. In particular, since the present economic system has not been radically reformed, it is all the more necessary for us to strengthen horizontal ties. We cannot rely on the state alone; neither can we isolate ourselves. In foreign countries, many enterprises not only carry out domestic cooperation, but extend their operations abroad by setting up transnational corporations. Some of our enterprises neither do business with foreign companies nor enter into joint operations with other Chinese enterprises. This "closed door" policy is an important cause of our prolonged backward state. On the whole, the people's ideological level has been raised somewhat following the development of cooperation. However, this does not mean that all the problems have been solved. We still have to strengthen propaganda and education and continue to unify people's understanding so that they will more consciously develop regional cooperation.

The Question of the Relationship Between Regional Cooperation and State Planning

On the whole, regional cooperation is an integral part of state planning, and the two are in keeping with each other. Regional cooperation is fundamentally aimed at ensuring the fulfillment of state plans. However, due to the defects in the present planning system, our one-sided understanding of planning, and departmental selfishness, conflicts always arise between planning and cooperation. Practice over the years has made us profoundly realize that in order to invigorate the economy without upsetting planning, we must properly handle the relationship between regional cooperation and state planning. To begin with, state plans must be given the necessary guarantees. We must not blindly develop cooperation that does not take macroeconomic results into account, because this will affect the fulfillment of mandatory state plans. For example, sodium carbonate, which we produce, is a rare commodity. If we use it to develop cooperation, we can get many things in return. But we have never made use of even a single jin of sodium carbonate, which is subject to state planning, in developing cooperation. We think that we have to take the interests of the whole into account. Second, we must incorporate regional cooperation into local plans. In accordance with the need to develop the national economy and to secure the necessary resources for the fulfillment of state plans, the local authorities may formulate plans for cooperation in terms of resources and for economic combinations. These will form an integral part of local plans and will serve the fulfillment of state production plans and financial plans. In carrying out cooperation, we must cooperate with our fraternal provinces, municipalities, and autonomous regions according to plans, understand the needs of the other party, fix the amount of resources to be used in the cooperative undertakings, and include the amount in the local production plan. Through tapping potential and increasing production, and on the premise of not affecting the state plan, we may use the surplus amount to satisfy the other party's needs and secure things we need in return. For example, over the last few years we have taken as our priority in developing cooperation solving the shortage of the three major articles of daily use. In accordance with the other party's need for bicycles, sewing machines, and other articles of daily use, we organized tasks aimed at overfulfilling production plans. Incorporating the needs of both parties into the local plan, we carried out exchanges in an organized way to satisfy our mutual needs. In this way, regional cooperation is a necessary

supplement to state planning and is also an important guarantee for the fulfillment of state plans. Third, we must open up, be flexible, and expand and strengthen horizontal economic ties. Our present planning system relies too much on vertical administration. There are very few horizontal ties and economic development is lacking in vitality. We must not look at state plans in a lopsided way and carry them out mechanically. The state is now reducing the scope of mandatory planning. Even mandatory planning ought to pave the way for regional cooperation and make room for activities of regional cooperation. In the socialist planned economy, market mechanism plays a supporting role. This does not mean that it is dispensable. At present its role is too insignificant. There are problems of implementation, as well as problems with the system itself. We hope that the state will, in a planned way, adopt a more flexible policy in regard to some products by practicing regulation by market mechanism and developing regional cooperation. As for guidance plans, which are numerous, they must fully bring into play the role of economic levers and see to it that the law of value is consciously used in regional cooperation. This will further invigorate the economy.

The Question of Mutual Benefits

We develop regional cooperation under socialist conditions. In carrying out cooperation, we must first proceed from the interests of the whole and attach importance to style and mutual support. This is especially the case with a coastal city like Tianjin. An important reason we have been able to develop so fast is that we have the support and assistance of the whole country. For this reason it is our unshirkable duty to serve the hinterland and support the national minority areas. Our cooperation projects differ from capitalist dealings. We cannot cheat as the capitalists do and cannot be preoccupied with our own gains and losses. In the final analysis, cooperation is aimed at the economic prosperity of the whole country. Thus, when we help others, we are also helping ourselves. This is a principle we have always upheld in developing regional cooperation and assistance between corresponding units. However, practice over the years also proves that the principle of exchange at equal value must be observed in cooperation. The key to successful cooperation lies in the proper solution of the question of mutual benefits. Cooperation will not have a firm footing and cannot expand and develop if it cannot benefit the parties involved. Thus, if we keep stressing assistance alone, we will never be able to sustain cooperation and will hamper cooperation in the end. We must properly combine mutual assistance with mutual benefit and mutual interest. As to the question of handling mutual interests between regions, if one form of cooperation cannot directly compensate for the contributions given by the other party, then we may adopt a method that combines several forms of cooperation and handle the cooperation with the whole locality as the unit so that both parties can obtain the benefits they deserve. For example, one party may contribute the resources while the other party contributes the technology or helps with personal training. In this way it is possible to arrive at a unanimity of interests in their common development. In addition to the question of mutual interests between cooperating regions, there is also the question of the distribution of interests among units within the same region. Under overall compensation, some units "do not get any benefits for their contributions" while others "benefit without contributing anything." That is why we must properly

solve the question of the relationship between contribution and benefit. Units that have made contributions must be given necessary compensation if they cannot benefit directly from the cooperation. The resources secured by our economic and technical services company through cooperation are an example. Apart from allocating the resources directly to the needy units, we must set aside a special portion for units which have contributed technical services in order to arouse the enthusiasm of these units in developing technical cooperation. Whoever contributes shall benefit. As far as possible, benefits should be directly proportional to contributions. We think that this is one of the principles we must observe in handling mutual benefits within an area.

The Question of Studying Policies and the System

Over the last few years we have come across many problems relating to policies and the system in regional cooperation. Many things are reasonable but not "legal." They cause dilemmas. We have to make adaptations to cooperation, but these are just makeshift arrangements. Policy questions must be studied both at the local level and at the central level. Otherwise, the development of regional cooperation will be greatly hampered. The question of funds is one example: At present, cooperative undertakings are not provided for in the plans. They are also not allowed to seek bank loans. Thus it is impossible to undertake big projects. Another example is that there are no separate targets for cooperative capital construction projects. If these projects are credited to the party that made the investment, they are not actually in the locality. If they are credited to the construction units that agreed to take part in the cooperation, other construction targets in the locality will be affected. If this problem is not solved, the construction of some cooperative projects cannot be carried out. As yet another example, let us look at the question of pricing. Due to the excessively low prices of some raw and semifinished materials, enterprises that produce these materials make very little profit. Some are even running at a loss. They are not allowed to raise their prices or sell at negotiated prices. For this reason they are unwilling to produce. Enterprises engaged in processing can make big profits, but they cannot get sufficient raw and semifinished materials. Prices make it impossible for both parties to benefit. Because of this, some very good cooperative projects cannot be carried out. In the future we should perhaps allow more flexibility in pricing. For example, some raw and semifinished materials may be sold at negotiated prices, and products made by processing enterprises using these materials may also be sold at negotiated prices. Apart from these, most policy problems relating to industry and commerce, taxation, statistics, customs contract legislation, and so on cannot be solved at the local level. It is suggested that these be considered in the overall economic restructuring. Proceeding from the need to develop horizontal economic ties, we should formulate a set of policies that encourages cooperation and combination.

The Question of Organization and Leadership

Regional cooperation involves different levels and aspects. Because it is so complicated and has such strong policy implications, it is beyond the scope of a single coordinating department. In light of this situation, our municipality has strengthened unified leadership over the work of developing cooperation by

placing it on the agenda and grasping it as an important economic task. The municipal government has set up a regional economic cooperation leading group and an economic cooperation office. These are officially included in the government organization as a commission-level organ. The economic cooperation office may send representatives to attend government meetings to become familiar with all the aspects of the city's work. It will exercise unified planning and unified management over cooperation work in the whole city and coordinate projects with outside units. The cooperation office is manned with competent cadres who are required to "abide by regulations without being over-rigid, keep things in order even in the absence of regulations, respect the leadership, and be good at self-discipline." In order to establish a cooperation network that extends to all directions and links all levels, we have successively set up cooperation offices in Beijing, Shanghai, Guangzhou, and other key cities. Eighteen fraternal provinces, municipalities, and autonomous regions have also set up offices in Tianjin to promote understanding, exchange information, and negotiate cooperation. In order to create conditions for cooperation, despite the serious housing shortage we managed to spare the Lihua building, which has a floor space of over 10,000 square meters, for use as the arena for developing regional cooperation. In September 1984, the resident offices of 11 provinces, municipalities, and autonomous regions and the Tianjin Economic Cooperation Office were already working there under the same roof. It has become the place for negotiating business deals and a cooperative service center.

In order to adapt to the new situation of reform and opening up, the municipal government recently held a meeting which was specifically devoted to a discussion of regional economic and technical cooperation. We planned to try as far as possible to combine the strength of our municipality, of our fraternal provinces, municipalities, and autonomous regions, and of foreign countries, using the open-door policy, to bring along internal combinations and using the latter to promote the opening of the country to the outside world. Our initial plan follows.

1. Joining hands with other fraternal provinces, municipalities, and autonomous regions in constructing economic and technical development areas and ports.

In the spirit of the seminar held by the Central Committee on the 14 coastal cities, we have worked out a preliminary plan for the opening of Tianjin to the outside world on the basis of repeated studies by experts. The overall plan is that we will fully utilize Tianjin's existing economic and technical basis and natural resources, make use of foreign funds, import technology, and concentrate on advancing the technical transformation of old enterprises. At the same time, in conjunction with port construction in the coastal areas, we will build an economic and technological development area. The site of the development area has been selected. It is located between Tangku and Beitang, with the port to the south, Beitang to the north, Bohai to the east, and the Beijing-Shanhaiguan railway to the west. With an area of over 40 square kilometers, it is ideally located and easily accessible by sea and land. Tianjin will open its doors to other fraternal provinces, municipalities, and autonomous regions and to all central departments. All are welcome to invest in the development area. Whether it be exclusive or joint venture, and regardless of who the investor, developer, user, or beneficiary is Tianjin will provide the necessary conditions and will

not try to profit from it. The Tianjin port has seen tremendous development since liberation, but it still has a long way to go before it can satisfy the needs of opening to the world and homeward bound sea transport. On 1 June 1984, the Central Committee officially delegated the power of port administration to Tianjin. It is our hope that all will come to use and develop the port, including making joint efforts to build up our fleet. In the case of joint ventures, we will actively contribute our share of investment. In the case of exclusive undertakings, we will provide the land. We will provide the necessary facilities to those who need our service.

2. Joining hands with other fraternal provinces, municipalities, and autonomous regions in developing resources and energy.

In order to meet the needs of the four modernizations and of opening to the world, we are willing to cooperate with other fraternal provinces, municipalities, and autonomous regions in any way in exploiting the resources and energy needed by the state and by both parties, and in exploiting export resources that can be sold at high exchange rates. With its advantage as an open city, Tianjin has a part to play in importing technology and equipment. If necessary, Tianjin may supply some foreign exchange. It is also all right to use foreign funds and cooperate with foreign countries in such endeavors.

4. Joining hands with other fraternal provinces, municipalities and autonomous regions to open shops selling famous special products and local delicacies. Fraternal provinces, municipalities, and autonomous regions with unique resources may also work with Tianjin in combined processing or combined operations.

4. Continuing to combine cooperation in terms of resources, technology, and personnel in an effort to expand regional exchanges.

We are willing to work with fraternal provinces, municipalities, and autonomous regions in developing cooperation at various levels, in various forms, and through various channels. Provided the state plans are not affected as a result, we may exchange commodities, technology, and personnel for commodities. We welcome fraternal provinces, municipalities, and autonomous regions to place processing orders with materials supplied to us. We hope that the combined use of these forms can further invigorate regional cooperation.

5. Taking further steps to do a better job of the work of assisting corresponding units.

In accordance with the principle of making assistance the primary goal and mutual interests the secondary objective, we should actively support corresponding units, with technical assistance and personnel training as priority tasks.

In regard to projects jointly operated with fraternal provinces, municipalities, and autonomous regions, we should do our best to provide the necessary facilities and good service. We should also offer the following favorable treatment: 1) Enterprises jointly operated with fraternal provinces, municipalities, and autonomous regions or with foreign firms are entitled to favorable treatment enjoyed by similar enterprises in Tianjin. Enterprises in the development area

are entitled to such treatment offered in the development area. 2) Jointly-operated enterprises in Tianjin shall practice a pre-tax division of profits. Income tax payable by exclusively-operated enterprises may be paid in their own localities. 3) Units that contribute raw and semifinished materials in jointly-operated enterprises may opt for profits or products in return. In the case of export goods, they may opt for foreign exchange. 4) Products exported by fraternal provinces, municipalities, and autonomous regions to Tianjin are to be sold at unified prices if there are unified state prices. If there are no unified prices, the goods may be sold at jointly fixed prices or at negotiated prices.

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ECONOMIC MANAGEMENT

PRC DEVELOPS INTERNAL ECONOMIC, TECHNICAL COOPERATION

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[Article by Gao Lianqing [7559 6647 1987], Du Ping [2629 1627] and Li You [2621 0645]: "New Trends in the Development of Economic and Technical Cooperation"--edited by Zhang Hanya [1728 3352 0068]]

[Text] Following the thorough implementation of the guideline of opening to the outside and domestically enlivening the economy and the intensive development of the reform of the economic system in our country, development of economic and technical cooperation between the localities, between the localities and the departments, and between the departments has progressed rather rapidly. It has evolved from simple cooperation in materials to the formation of a "body of four-in-one" cooperation,--in technology, material resources, personnel and the economy; it has extended from the circulation sector to the production sector and to the various aspects of the national economy; and it has also grown from cooperation of a once-only and temporary nature to long-term and stable or permanent cooperation. At the conference on economic and technical cooperation and counterpart aid jointly convened from 17-23 September 1984 in Tianjin by the State Economic Commission, State Planning Commission, Nationality Affairs Commission, and the State Supplies Bureau, over 1,700 cooperation projects were tentatively agreed upon. An analysis of these projects disclosed that they embodied the following special features: 1) A large number of economic combination projects; 2) a large number of large and medium-sized projects; 3) a large number of long-term cooperation and "very long-term cooperation" projects; and 4) a large number of projects devoted to developing energy, communications, and the scarce raw materials. This is a good beginning of the development in economic and technical cooperation, showing that this work has been promoted to a new stage of development.

Increasing Relative Emphasis on Raising Funds To Jointly Develop Energy Resources and the Rational Direction of the Investments

At present, an extremely important problem is how to bring the superiority of the localities into full play, how to develop and utilize the resources of the localities, and how to promote the construction for the "four modernizations." The underground natural resources of our country are mainly concentrated in the provinces and regions in the inland, but the economic foundation there is relatively weak, the financial strength is limited, and the technical conditions

are poor. If we wholly depend on their own strength for development, hardly anything can be accomplished. On the other hand, the economic foundation of the industrially developed provinces and municipalities along the coast is relatively good. The localities are good in financial strength and in technical conditions but are deficient in natural resources. Hence, if we can, by means of joining together the coastal areas and the inland in cooperation and development, make use of the superiority of the coastal provinces and municipalities in manpower, financial power, and technology to transform the potential superiority in natural resources in the inland areas into real and realized superiority, it is possible to achieve the purpose of common development.

1. Jointly Raising Funds for Coal Mining

At the national conference on economic and technical cooperation and counterpart support convened in Tianjin, it was initially agreed to jointly develop four coal mining projects. A total investment of 500 million yuan was projected, of which the two projects in Tianjin and Dongshan will cost 240 million yuan, one project each in Jiangsu Province and Zhejiang Province will cost 200 million yuan, while Liaoning and Shanxi undertook one project at 60 million yuan.

2. Jointly Raising Funds to Develop Electric Power Plants

The subordinate units of the East China Electric Power Administration, namely, Jiangsu, Anhui and Zhejiang Provinces and Shanghai Municipality, have decided to jointly raise funds to develop the electricity industry and thus solve the problem of the acute shortage in the supply of electricity in the localities. This is an effective measure to speed up construction of the power industry and to suit the needs of production development. From 1985 to 1990, these three provinces and one municipality will raise roughly 2.5 billion yuan to develop the power industry, not including the projects arranged under the state plan. The capacity of the newly-installed generating units will be over 2 million kilowatts. When all the new generating units are in operation, the annual volume of power generation will be 14 billion kilowatt-hours, roughly equivalent to one-quarter of the present annual power generating capacity of the East China Power Network.

3. Shifting the Production of Goods from Energy-Deficient Provinces and Municipalities to Energy-Producing Bases

The above-mentioned cooperation form can solve the problems of long-distance transport of fuels and raw materials for energy-deficient localities and at the same time bring the supremacy in energy of the inland areas into full play, develop the economy and greatly improve the socio-economic results. At the same time, it is beneficial to promoting a rational geographical distribution of industry and the specialized division of work of the localities.

For example, the Shizuishan Iron Smelting Plant of the Ningxia Autonomous Region originally had to close its doors because of operating losses. Subsequently several enterprise units in Tianjin producing and using ferro-alloys jointly put up technology and capital to help this plant technically transform its equipment, improve its technological level, and form an annual production

capacity of 3,000 tons of ferro-alloys, increasing its output value by over 3 million yuan and its profits by over half a million yuan a year. Each year Tianjin can obtain 2,000 tons of ferro-alloys from this plant, equivalent to the savings of 18 million kilowatt-hours of electricity. If this volume of electricity is used in steel refining, 24,000 tons of alloy steel can be produced.

4. Using "Hard Wares" in Exchange for "Soft Wares," Combining the Superiority in Resources With the Superiority in Technology and Management

Using "hard wares" in exchange for "soft wares" means that in cooperation the inland provinces and regions use their mining resources and various kinds of special native products to exchange, with brother provinces and municipalities along the coast, for advanced technology and skills and advanced management experiences. This forms a situation beneficial to both parties in the cooperation.

Each year Shanxi Province uses about 10 million tons of both parties in the cooperation.

Each year Shanxi Province uses about 10 million tons of coal in carrying out economic and technical cooperation with brother provinces and municipalities in exchange for technology and equipment and to import capital funds from the coastal areas. On the basis that each 40,000 tons of coal can create 100 million yuan of industrial output value, this is estimated to increase profits and taxes by 20 million yuan. On the other side, 10 million tons of coal derived from cooperation can enable the developed areas along the coast to create an additional 25 billion yuan of output value and 5 billion yuan of taxes and profits. In 1983, Shanxi Province signed 73 economic and technical cooperation projects with the provinces of Jiangsu and Zhejiang and Shanghai Municipality. Over 80 percent of these projects were completed during the same year and enabled Shanxi Province to reap the benefits in the same year. According to incomplete statistics, the newly-increased output value from these projects that year amounted to over 100 million yuan and the newly-increased taxes and profits amounted to 36.80 million yuan.

Solving Knotty Problems in Science and Technology and Cooperation in Regard to Talented People Constitute the Key to Developing the Economy

Solving knotty problems in science and technology can promote the union of science and technology with production, enable the rapid transformation of the fruits of science and technology into actual productive forces and improve the economic results of whole society. Talented people constitute the key to the "four modernizations," and cooperation in regard to talented people can facilitate the rational movement of talented people and enable everybody to fully display his talents. Fifteen districts and cities of Hebei Province have established cooperative relations with 177 higher institutions of learning and scientific research units throughout the country. They have jointly adopted such forms as attacking knotty problems in technology, introducing new techniques, and establishing help-and-study relations and have thus achieved notable successes in developing new products, technically transforming old products,

and promoting the technical transformation of the enterprises. For example the tungsten and molybdenum materials plant of the longfong region cooperated with the Beijing metallurgical research plant and succeeded in producing tungsten wires which can resist high temperatures, thus helped to fill the gap of our country's lack of this special kind of wire for electric bulbs. The Xianghe country boiler plant co-operated with the Beijing Environmental Protection Bureau to successfully trial produce double-layer water boilers, raising the heating efficiency by 20 percent and reducing coal consumption by 20 percent.

Tianjin Municipality successively developed with 15 provinces, municipalities, and autonomous regions various cooperation projects such as interchange of able persons, directional training of specialized personnel, and so forth. It traded with 104 colleges and specialized institutes of these provinces, municipalities, and autonomous regions for 910 college students to fill gaps and vacancies in 218 short-line specialized trades. This type of cooperation does not need any additional investment or facilities but can solve the urgent need for talented people to fill gaps in short-line trades. At the same time, adoption of this method of reciprocal exchange of student enrollment which permits assignment of jobs in the places of origin of the students can reduce many of the contradictions found in the work of assignment of jobs.

Raising Funds to Develop Communications; Exploring a New Road to Joint Development

The Chang Jiang system has over 3,600 large and small branch rivers, having a total length of some 70,000 kilometers open to navigation and comprising two-thirds of the navigable inland waterway in the country. However, at present the annual traffic volume of the Chang Jiang is only around 100 million tons, equivalent to only two-thirds of the traffic volume of the Ohio River, a tributary of the Mississippi River, while the navigable length of the Chang Jiang system exceeds that of the latter by 60 percent. The area of the Chang Jiang valley occupies one-fifth of the country's total territory, being an area in our country where the level of industrial and agricultural production is relatively high and culture and education are relatively developed. Its gross industrial and agricultural output value is roughly 40 percent of that of the whole country. Hence, developing the Chang Jiang and allowing the nearly 400 million people residing in the Chang Jiang valley to become rich and prosperous first are the fond wishes of the various nationalities of people in the Chang Jiang valley. At the national conference on economic and technical cooperation and counterpart aid held in Tianjin, Yunnan's Vice Governor Dao Guodong invited the responsible comrades of 10 provinces and municipalities, including Sichuan, Hubei, Jiangsu and Shanghai, to discuss the relevant problems of developing through transport along the Chang Jiang and it was decided that Yunnan Province would take the lead in convening at the end of the year the first preparatory meeting on developing through transport along the Chang Jiang. At the same time, seven provinces and municipalities including Sichuan, Jiangsu, Guangdong and Liaoning also jointly discussed the problem of sea-and-river through transport. At present, the problem of communications and transport has posed an urgent problem by restraining the development of the national economy. In the past, in actual economic and technical cooperation, many projects had frequently been affected in their further development by communication difficulties. For this reason, currently departments and localities have begun to turn

their attention to communications and transport, actively looking for a comprehensive formula for transportation and communication. For example, the Ministry of Railways and Guangdong Province have raised a sum of 700 million yuan for the purpose of building and rebuilding the three railway lines from Maoming to Sanyuan, Guangzhou to Hengyang, and Nanning to Fangchen. All this is good news. The relevant departments of the central government should act more in the capacity of a "go-between" and actively render support to the creation of conditions for raising funds to develop communications, for developing and utilizing water transport facilities along the Chang Jiang and solving other problems, thus further promoting the economic development of the country.

The Road to Internal-External, Military-Civilian, and Urban-Rural Combination Becomes Wider and Wider

Internal-external combination. Opening to the outside is needed in the economic development of our country. The combination of the coastal areas with the inland, being able to more effectively develop the international markets and strengthen international trade, can simultaneously promote the development of internal combination. In recent years, Tianjin, fully utilizing its own advantageous conditions of having many channels for foreign trade and relatively quick access to information, has cooperated and combined with the inland to utilize foreign capital, introduce technology and develop the export of products, and achieved good results. For example, it combined with Yingkou County of Liaoning Province to develop resources and utilize foreign capital to jointly engage in the production of re-smelted magnesium, achieving an annual production capacity of 15,000 tons. Tianjin was responsible for exporting the products, averaging a foreign exchange conversion cost at 2.41 yuan and thus achieving fairly good results.

Military-civilian cooperation. Our military industry is known for its comprehensive equipment, advanced technology, and powerful scientific and technological strength. Transference of its technology to civilian production is expected to produce notable economic results. Liaoning Province, in particular, has a large number of enterprises in the military industry. All its military industrial enterprises and scientific and research units have taken active measures to organize the transformation of the technology of the military industry to the production of commodities for civilian use. In only the first 10 months of 1983, the enterprises of the military industry of the province had established technical cooperation relations with over 1,000 civilian enterprises throughout over 20 provinces, municipalities, and autonomous regions in the whole country and signed 1,500 technical cooperation agreements, involving transactions valued at 35 million yuan and creation of output value of over 100 million yuan. For example, the Xinguang machine-building plant transferred its flame torch cutting tool and a special appliance for breaking and cutting cement concrete to the Shenyang loudspeaker accessories plant. Both of these appliances had won special awards for the Xinguang plant for being important scientific and technical accomplishments. The transfer helped this Shenyang civilian plant to reverse its operating losses of many years in succession to begin reporting profits.

Urban and rural combination. Enterprises in the rural villages are well-known for the interior quality of their equipment, their low-grade technology, and their scarcity of talented personnel. Rendering active support to enterprises in the rural villages is beneficial to promoting the development of the production and circulation of commodities in the rural areas. To effectively promote the development of rural enterprises and of trades dealing in the processing of agricultural and sideline products, Gansu Province has made a special effort, in the course of economic and technical cooperation, to give preferential treatment to enterprises in rural villages which have plentiful natural resources but are relatively backward in technology. In the past 2 years, it has devoted a portion of the technology and capital funds introduced from enterprises in outside provinces, and from scientific and research units and colleges and specialized institutions of learning, to priority uses in the specialized households, in the hope that the specialized households will take the lead in developing the enterprises in the rural villages. Taking as a start the development and utilization of the local resources of quartz, limestone and iron ores, the province's Yongdeng County extensively cooperated with outside localities, introduced over 13 million yuan of capital funds, invited and employed over 10 technicians from the outside, newly established and expanded 23 rural enterprises and 81 enterprises jointly operated by commune members, and thus enlivened the economy of the locality. The Longfong District of Hebei Province, utilizing its favorable conditions of proximity to Beijing and Tianjin, extensively organized cooperation in the processing of products and handled the processing of machinery spare parts for industrial enterprises in Beijing and Tianjin. At present, the district has over 100 enterprises above the county-level and over 4,000 rural enterprises which have established processing cooperation relations with enterprises in Beijing and Tianjin.

At present, economic and technical cooperation has spread to various localities in the country, permeating each and every department of the national economy. It has become an important constituent part of our country's national economy and the social development plan. It is destined to play an increasingly important role in the economic life of the people. Following the continuous penetration and development of the reform of the cities, economic and technical cooperation among the various localities, departments and enterprises can certainly look forward to an even greater development.

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ECONOMIC MANAGEMENT

IDEAS ON STATISTICS OF ECONOMIC RETURNS

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[Article by Weng Lixin [5040 4409 7451]: "Methodology for Statistical Evaluation of Economic Returns"]

[Text] Reinforcing economic returns statistics requires not only reasonably drafted target systems in each field of economic returns but also necessitates improving the methods of statistical evaluation. This article will present some ideas on certain questions of methods for the statistical evaluation of economic returns.

Aspect Theory and Key Point Theory

A scientific statistical target must be based on the economic category generalized in the theory of Marxist political economy and further specify the category so as to specifically define the essence of the target. Then, how do we correctly comprehend the category of economic returns? What are the important characteristics about the specification of economic returns target?

Owing to different scopes of calculation, as we know, the achievements obtained in socialist production, which satisfy the public needs, may be gross product, national income product, i.e., net product, or net income including the amount of profit and tax. They unify use values with values and production results with economic profits. Economic returns may not be equivalent to economic profits. Economic returns reflect the efficiency of production results and economic profits, and are also the returns acquired on the basis of the labor costs and funds used. The economic returns are raised whenever a fixed amount of labor costs and funds used produces more product; also the economic returns are better when less labor costs and funds produces the same amount of product. Therefore, the basic contents in the category of economic returns may be summarized as the ratio of "costs" [2076 6316] and "gains" [2076 1779] which shows in the saving of labor time for social production.

The ratio relationship of "costs" and "gains" specifies the target of economic returns, forming an enormous complex target group with versatile characteristics. They include the returns of labor costs and funds

utilization, the efficiencies of obtaining production results and economic profits; in addition, they link a series of expanded targets. In analyzing social returns, linked with production returns, it is necessary to analyze the increased living standards in the material life of the people; in analyzing business returns, linked with the rate of labor productivity, it is necessary to analyze the accomplishments in respect to product variety and quality. Therefore, the statistical evaluation of economic returns must be based on the requirement of statistical mission selectively using various targets to establish a complete target system. At the same time, an evaluating method of "aspect theory" must be adopted to make specific analysis in all aspects of the target system so as to "attend to each and every respect" and examine comprehensively.

It is essential to emphasize that the aspect theory of statistical evaluation is determined by the objective economic development and its complexity and variety of the returns procured. If in assessing a single aspect of the theory or a single item of economic returns there is a deviation from aspect theory, not only will the assessment not be correct, it may even lead the production work to drift off the right path and to go astray. For instance, it is impossible to reflect the enterprises' achievements to increase labor efficiency and reduce production cost, if the evaluation acts on the rate of profits and taxes of the funds; on the contrary, it will lead them to put undue pursuit on profits. The lesson would be even more grave if we look back a rather long period of time in the past when agricultural production only stressed grain--unilaterally pursued grain per mu yield returns--and resulted in wasting labor power and material resources and consequently caused disproportion in agriculture, forestry, animal husbandry, by-product and fishery. To evaluate economic returns, therefore, it is required to grasp all their connections, to understand, check and analyze from all sides in order to correctly reflect the real situation and the returns realized and promote an overall development of national economy.

Aspect theory which evaluates economic returns may exist simultaneously with key point theory. Based on the different characteristics in different economic sectors, there is practical significance in the target system to stress upon key point target and conduct thorough checkup. For example, commercial work at present is mainly manual labor, i.e., animate labor occupies a fairly large proportion; labor efficiency becomes the principal target in examining commercial returns. To analyze the productivity in some industrial sectors which have a higher degree of mechanization, it is necessary to decompose the extent of technical equipment for work and the output rate of fixed assets for production and carry on key point evaluation. The returns of funds possessed in these industries would be chiefly the utilization efficiency of fixed assets for production; while in the commercial sectors where buying and selling activities are under way, the investigation should focus on the turnover speed of circulating funds. To different sectors, all these key point evaluations make easy to know somewhat precisely their conditions of economic returns. The key point evaluation can also be used to solve critical problems existing in the procedure of production; for example, in some industrial departments the energy problem is prominent, the overstock problem of commodity circulation

is grave, etc. Applying key point evaluation to these crucial items can easily discover solutions and improve the current situation. Certainly, key point theory cannot replace aspect theory. A rational and comprehensive evaluating method should check the focal target and consider the secondary factor, too.

For overall appraising the target system of economic returns, the statistics forums have suggested many collective assessing methods, such as synthetical score method, average index method, effect coefficient method, etc. These methods are definitely significant because they explain manifoldly the accomplishments of various returns targets from different angles. But a synthetical view of statistical appraisal still needs to be integrated with aspect theory because the conclusion of synthetical appraisal often conceals the contents of different returns targets. For example, suppose a certain enterprise unrealistically pursues output value and the productivity fulfills the mission up to 120 percent while the variety and quality deviate from the plan requirement by 88 percent and 95 percent, respectively; the synthetical appraisal is 101 percent. This synthetical conclusion, which seemingly completes the mission, conceals internal precise distinctions. Therefore, while comprehensively evaluating the economic returns, it is required to analyze the concrete expressions of all returns targets and explain unitedly so as to assess accurately.

In short, appraising economic returns must follow the viewpoint of Marx' dialectic materialism with an attitude of seeking truth from facts to carry out specific analysis and thorough assessment on all-side targets of returns. It is necessary to establish an integrated target system of economic returns, to attach importance to the evaluating method of aspect theory and to combine aspect theory with key point theory and synthetical theory. Applying aspect theory to do specific checkup on all targets of returns, it is required to lay stress upon the focal target and make thorough analysis. Although the synthetical theory can illustrate collectively the fulfillment of all targets of returns, it still needs linkage to aspect theory in order to carry out special evaluation. This is a basic requirement of the statistical appraisal method for economic returns.

Social Theory and Business Theory

The evaluation of economic returns, with its particular contents, must subject to different production purposes in different social systems. The criterion to evaluate the economic returns of capitalist production is "using minimum capital in advance to produce maximum surplus value or surplus product." The evaluation of economic returns of socialist production shows in investing as little as possible the labor costs and funds used and gaining as much as possible the use value so as to suit the purposes of social production and meet the increasing needs of the people in material and cultural life. Satisfying the social needs is the principle which guides socialist production activities to acquire economic returns. And it is the essential mark to appraise socialist economic returns as well.

In statistical practice, the evaluation and analysis may be worked out from both the macroeconomic returns and microeconomic returns. Microeconomic returns are the cells that compose macroeconomic returns which, in return, constitute the aggregation of microeconomic returns. If the enterprises at basic level raise productivity, increase products, improve product quality, make goods marketable, bring about product value as quickly as possible, speed up funds turnover, reduce product costs, and expand profit returns, the collective results will raise the entire national economic returns and will represent a continuous growth of social products. Under general conditions, therefore, microeconomic returns and macroeconomic returns are identical. The statistics must attach great importance to evaluate and analyze the returns of enterprises at basic level, areas and departments. Only through constantly raising the economic returns at various units can we spur the social production developing gradually, better satisfying the social needs. This is not to say, of course, there are no contradictions among enterprises, departments, areas and entire national economy. The contradictions still exist between basic level productions and social needs and between local interests and whole interests. If certain enterprises, individual areas or departments strive solely to gain production results and unilaterally seek their own parochial interests and depart from whole interests and social needs, the contradictions will be merged even more obviously. In this situation, it is necessary to lay stress on the "social theory" to evaluate the economic returns. And proceed from social needs to reasonably dispose evaluation targets and thoroughly implement multiple appraisals to assess the accomplishments of returns at these enterprises, areas or departments. The following respects deserve to be considered:

First, we still want to emphasize that the basic target for evaluating economic returns is to meet the social needs. The returns the enterprises have gained are false if the results of production deviate from social needs. Basing on their own interests, some enterprises blindly produce "profitable" goods, not producing or producing small quantities of "nonprofitable products" set by the national planned mission. The results achieved seemingly benefit the enterprises to increase economic returns, such as improved labor productivity, quicker funds turnover, reduced product costs, etc.; but the production results run counter to planned arrangements and depart from social needs. The case of this kind should not be evaluated as positive results from the stand of social viewpoint and the execution of variety plan.

Second, socialist production must rationally coordinate the relations between local interests and whole interests. Ignoring the local interests of areas and enterprises are unfavorable to mobilize them and bring into play the initiative of vast staffs and workers; whereas the socialist economic principle will not tolerate any areas or enterprises unilaterally to pay attention to their own interests, transgress against national plans and damage whole interests. To the latter case, the assessment should be made from the social viewpoint. On account of local interests, for instance, some areas blindly build factories and block the exit of raw and semifinished materials. They get certain economic returns in view of local enterprises, but, evaluating from social interests, the fact that small factory squeezes large factory and backwardness jostles forwardness brings on the failure

of missions to complete the country's key enterprises and losses in the development of national economy. The question that the business returns are gained by marring whole interests should be noted in the statistical evaluation of economic returns.

Third, except immediately showing the ratio relationship of "costs" and "gains" of the production returns, the evaluation of economic returns would touch upon the questions of environmental protection and reasonably utilizing natural resources. Suppose some enterprises raise economic returns and get production results but in the meantime unsuitably discharge waste gas, waste residue and waste water, etc., causing severe environmental pollution and damaging natural resources; other enterprises save the costs of animate and inanimate labor but simultaneously destroy resources by using raw and semifinished materials through excessively excavating and denuding or squander resources by using dear or rare materials as common materials. The damages brought about by these events to the national economic development in the future absolutely cannot be made up by immediate business returns. In the course of statistical evaluation of economic returns, consequently, careful consideration should be given to the relationship between long-term interests and immediate interests.

Fourth, another question deserves to be noticed in evaluating economic returns, i.e., how the measures of production management would relate to the real benefits of consumption. It shows in the matter of circulation. As for the distribution of buying and selling network outlets in rural areas, if commercial departments do not consider the conditions of production, life and transportation and make necessary arrangements, the enterprises may save labor costs but will create great inconvenience to the masses of peasants. They spend even more time when they sell agricultural by-products and buy manufactured goods for daily uses. The fact that whether the measurement and quality of service in business management make things convenient for the people or much better meet consumers' needs should also be emphasized and checked from the standpoint of social evaluation.

Although the contradiction existing between social theory and business theory is not a general phenomenon in evaluating economic returns, yet the reason of contradiction, mainly because of departing from the principle of socialist production management, is significant. Therefore, we must pay much attention to the social assessment of economic returns, strictly demand that the work of production management at basic level enterprises must subordinate to the entire plan of national economy and adhere to the socialist management directions and requisitions: Only so the returns they have obtained and their production results can conform to whole interests, meet social needs and unify social theory and business theory in the evaluation of economic returns.

Quantitative Method and Qualitative Method

The essential requirement to correctly evaluate economic returns is to meet social needs and the content of evaluation is the ratio relationship between labor costs or funds possessed and production results. These items,

belonging to quantity marks, can be counted by portion; consequently the economic returns targets derived therefrom are measurable. The measurability is an important trait that the economic returns targets have shown.

The measurability of economic returns targets decides that the quantitative method must be adopted as the major assessing and analyzing method. This method may comprehensively evaluate by quantity the conditions in which the returns are obtained in the course of social production and compare the real level with the planned level, historical level and average level of the same kind of production units or advanced level; it can concretely indicate the direction and extent of change from which the returns achieved and their absolute value of impact. This is a particular method suitable for returns evaluation and it has a peculiar function that an ordinary assessment and analyses method may not carry out.

It should be noticed that the measurability of economic returns targets and the quantitative method of assessment and analysis have the effects that can reflect the returns trend on the principal aspect but not on some other aspects. This is a limitation. Therefore, the returns target in statistics may not be an all-purpose target and the quantitative method which evaluates the returns is not a sole assessment method. It is necessary to emphasize the united application of "quantitative method" and "qualitative method"; that is the only way that an overall appraisal to evaluate returns through aspect theory and key point theory and utilize the assessing method that links social theory and business theory can be conducted.

To integrate quantitative methods and qualitative methods, the handling of economic targets should give priority to quantity targets linking and applied with quality factors. Joining quality factors will be more advantageous to social assessment and may effectively work out a comparatively overall appraisal to the returns of the sectors concerned.

How to use quality factors is a somewhat complicated question which should be considered thoughtfully. There are two conditions:

One condition is that the quality factor belongs to production management measures and relates to other spheres of interests, too. In business management, for example, raising service quality may expand sales and make things convenient for the people; rationally disposing commercial network outlets may promote business and save consumers' time used for purchase. These factors, expounded from good management or bad management, would be reflected on the sales results and returns targets. Statistical evaluation, mainly through multiple targets, is different from general business checkup. These factors must be judged independently and be evaluated. Now, consider from another aspect. Because of relating to consumers' interests, under a given condition, if a certain field is a sellers' market, the situation is that the demand for some goods exceeds the supply. For the sake of assessing the commercial service to consumers, the service quality must be checked. As to sparsely populated countryside, the distribution of network outlets must be investigated. It is thus clear that the application of quality factors should be adept in distinguishing different situations and dealing with each case on its merits.

The other condition is that some quality factors, such as environmental protection and safety in production, etc., are not direct factors in evaluating returns, yet reflect the working quality of the business and relate to general interests. These items may not be checked under ordinary conditions; because the evaluation of economic returns is distinct from extensive assessment for business working quality. However, if the enterprises merely pursue returns, ignoring safety in production and neglecting environmental protection, and cause grave consequences, these items must be regarded as the prerequisite in evaluating returns and be examined. Namely, owing to the harmful results of these things affecting general and long-term interests, the quality factors must be added so as to comprehensively assess the business production returns. Thus, the application of quality factors must consider more from the standpoint of social evaluation, go through detailed analysis and examine critically the situations of production management.

The integration of quantitative methods and qualitative methods shows in the evaluation and analysis of economic returns targets; and, in addition, it is necessary to combine comprehensive analysis with specific analysis. We want to emphasize that the basic way of statistical evaluation is to employ comprehensive targets assessing quantitatively the level attained and the extent of change of the economic returns and connectively make overall evaluation to the system of returns target. However, united with specific analysis of the particular conditions in which the returns obtained can be more effectively conducting an all-round evaluation and in the meantime further develop the following analyses:

1. Analyze jointly the economic returns with speed and proportion. The socialist production development demands speed and proportion as well as returns, and require the unification of economic returns and proportion and speed. An important content in the statistical analysis of economic returns is to analyze it combining with proportion and speed in order to promote national economic development, make the returns advance as the core so as to rationally arrange proportion and speed, and guard against unilaterally pursuing speed while neglecting returns and causing a harmful tendency in which the proportion and speed deviate from returns.
2. Decompose and analyze the factors of shaping the economic returns. The statistics mainly apply comprehensive targets to assess the attainment of returns, but thoroughly analyzing the factors that shape the economic returns are required. Breakdown the influences of various returns targets by means of factorial analysis method or analyze specifically. Find out the reasons why the returns have changed, distinguish the essential factors, the secondary factors, the internal factors of production units and the factors affected by external conditions so as to grip the principal contradictions and recognize the achievements made by the subjective efforts due to business management. Doing so is advantageous to evaluate the returns and is convenient to discover the ways that can raise returns.
3. Analyze and research the precise means to increase returns. The returns statistics must be based on the figures data on hand, be good at detecting

and summarizing advanced experience and pay attention to weak spots and correct existing problems. Another analysis mission of economic returns statistics is to concentrate on studying the special questions in the contents of advanced experience and vulnerable links. Fully employ statistical data, unfold requisite investigation and research, aim at these special questions to do through analysis and put forward ways and means for solution in order to further promote the constant expansion of returns.

12756

CSU: 4006/187

ECONOMIC MANAGEMENT

SHANGHAI CITY INDUSTRIALIZES RURAL SUBURBS

OW170903 Beijing XINHUA in English 0725 GMT 17 Mar 85

[Text] Shanghai, 17 March (XINHUA)--The rural suburbs of China's biggest industrial city of Shanghai is being industrialized while the supply of staple food is on the increase.

Now the area is dotted with 6,500 factories, employing more than 1 million people released from farm production thanks to the introduction of the production responsibility system in the rural area. Most of them do processing for city industries and some of them are producing export products.

The area used to grow grain and cotton, with little industry before 1978 when China began to reform rural economy.

Since then the proportion of income from farming and industry to the gross income has been altered decisively.

According to municipal authorities, 70 percent of the rural gross income last year came from industry, while only 15 percent was derived from farming.

The Shanghai suburbs have 10 counties, with a labor force of more than 2.5 million. The rural labor force in the period between 1972 and 1983 increased by 345,000. But the number of people working on the land in 1983 was 700,000 less than in 1972.

Rural industrialization helped boost the peasants' income and narrow the income gap between them and cities' workers. The annual per capita income of peasants in 1965 was 235 yuan while that of city workers was 835 yuan. In 1983, the figure was 565 yuan for peasants and 935 yuan for city workers.

City authorities said that rural industrialization had not in any way held up agricultural development. On the contrary, it has stimulated the development of non-staple food supplies to the city, they said. According to 1983 figures, 67 percent of the city's pork supply, 55 percent of poultry and 96 percent of fresh eggs and 100 percent of milk came from the suburbs. The pork supply was 3.5 times that of 1965. Poultry supply was nearly 7 times and fresh egg supply was nearly 15 times those of 1965.

CSO: 4020/150

ECONOMIC MANAGEMENT

SHANGHAI PROMOTES INTERREGIONAL COOPERATION

OW150913 Beijing XINHUA in English 0844 GMT 15 Mar 85

[Text] Shanghai, 15 March (XINHUA)--Shanghai signed 779 economic cooperation deals with other parts of China last year, a jump of nearly 90 percent from 1983, according to municipal authorities.

The city launched 190 joint businesses with firms elsewhere in 1984 alone.

Interregional economic and technical cooperation is being encouraged by the government as a way of boosting economic growth in underdeveloped areas.

Shanghai, China's most economically-developed area, now helps other regions acquire new technology, carry out scientific research and train personnel.

It also offers business and technical information, financial and consultancy services.

In the first 2 months of this year, Shanghai Mayor Wang Daohan has made business trips to the four provinces of Jiangsu, Zhejiang, Anhui and Jiangxi.

Under agreements signed, Shanghai, Anhui and Jiangxi will jointly develop coal, pyrite, copper and tungsten resources.

There are plans to co-develop Ningbo Port in Zhejiang and build a Shanghai-Ningbo motorway. Joint livestock and fresh-water fish farms are also planned.

Interregional cooperation also involves the joint production of popular brands of manufactured goods.

Shanghai factories making top-quality bicycles, TV sets and sewing machines have transferred technology to counterparts in many cities in Jiangsu, Zhejiang and Guangdong provinces, and in Xinjiang and Guangxi Autonomous Regions.

They have also helped upgrade equipment and improvement management--enabling their counterparts to manufacture products as good as theirs.

Meanwhile, other regions have opened 150 stores in Shanghai. As a result, many goods from other parts of the country are available.

During an inspection tour of Shanghai in December, Premier Zhao Ziyang said the city should become China's largest trading, banking, scientific and information center.

ECONOMIC MANAGEMENT

HEBEI IMPLEMENTS SECOND TAX PAYMENT PHASE

Shijiazhuang HEBEI RIBAO in Chinese 17 Aug 84 p 1

[Article: "Second Phase of Substituting Tax Payment for Profit Delivery To Begin in October"]

[Text] The provincial conference on the second phase of substituting tax payment for profit delivery was convened from 7 to 17 August in Shijiazhuang City. Provincial Vice Governor Hung Vi transmitted the spirit of the national conference on the same program. Those who attended and seriously studied the proceedings raised their understanding, unified their thinking and made specific plans for reforming the second tax payment phase in light of Hebei's actual conditions. They unanimously pledged to be well prepared for the task and to carry out the second phase on schedule.

Hebei Governor Zhang Shuguang spoke at the conference. After analyzing Hebei's urban and rural economic reforms, he emphasized the importance of the second phase tax payment plan. He said: "The second phase tax payment plan is basically an overall reform, holding the key to solving the problem of 'eating from the communal pot' and breaking the logjam posed by urban economic reforms. Once the tax payment problem is satisfactorily resolved, other matters can be handled more easily. This is most important to promoting Hebei's economic reforms. We must vigorously and unrelentingly push forward the second phase tax payment reform program throughout the province."

Zhang Shuguang said: "The second phase tax payment program is a further development of economic reform. In the previous stage, we energetically promoted and carried out various forms of economic contracting systems. They have positively contributed to economic development by mobilizing the enthusiasm of enterprises and their staff. But taking responsibility for profits has its limitations. After comparing and examining, tax payment in lieu of profit delivery is much superior." He pointed out: "In dealing with enterprises taking responsibility for their own profits, we must persist in following these two principles. First, resolutely implement the second phase tax payment plan worked out by the Central Committee and the State Council. This is a prerequisite. Second, persist in proceeding from actual conditions and according to facts. In the course of carrying out the second phase tax payment plan, the spirit of blazing new trails displayed in the

first stage should be maintained and promoted to make the reform a success. At the same time, further efforts should be made according to circumstances to improve the economic responsibility system within enterprises."

Zhang urged greater efforts to solve the problem of relating the matter of enterprises taking responsibility for their own profits to the second phase tax payment plan without undue haste. He also suggested specific ways to solve this problem.

With a view to clearing up the prevailing confusion among some people regarding the state's attempt to take advantage of the tax plan to take a big chunk of profit gained by enterprises, Zhang pointed out: "The plan is aimed at reforming the entire national economic system and enlivening both enterprises and the economy. It is not just a financial problem. Enterprises will benefit more from the development of production. The better the management, the longer the time and the greater the staying power will be."

Zhang Shuguang also talked about financial and taxation problems. He said: "Financial revenue should greatly exceed tax collecting and do the job well. Collecting revenue without letup depends on these two principles. First, be humble and careful, make repeated attempts until success is assured, and avoid making mistakes but keep on collecting till the yearend to greatly exceed collection. Second, tax collection should be consolidated and carried out according to the policy of collecting and delivering what should be collected but not what should not be collected. In addition, be serious in solving problems that should be solved, do not inflate figures when collecting revenue, and absolutely avoid falsifying figures but strive honestly to overfulfill assigned tasks. Tax collection work should continuously be strengthened. In the past 2 years, tax collecting work in Hebei has been improved and results have been achieved. However, since the tax collection potential is still great, the task of tax collection will be heavier and more complex following the implementation of the second phase plan and the development of the commodity economy and expansion of economic exchanges with other countries. Therefore, unceasing and concentrated efforts to collect tax must be made. Various ways and means should be employed in the second half of this year to give wide publicity to tax collection. Such publicity will further raise the understanding of cadres at all levels and overcome the unilateral "benevolent" viewpoint so they will support tax collecting cadres in performing their duty according to law. This will also strengthen the legal concept among the broad masses so they will consider paying taxes to the state as their glorious duty. It is necessary to pay serious attention to adjusting the leading groups of county tax bureaus. Tax structures at all levels should be strengthened rather than weakened. It is also important to train cadres at posts by rotation and in various ways in order to improve their competence. It is equally necessary to educate tax collecting cadres to be honest and devoted to public duty, to obey discipline and be law-abiding. In August, be serious in carrying forward the spirit of central and provincial work conferences on the second phase plan and in arranging and planning well various precollection tasks. Extensive publicity on tax collection should be launched in September while detailed measures for implementing the second

phase plan should be worked out in October. An overall check on financial revenue and tax collection work should be conducted in November to examine ideological understanding, policy enforcement, revenue increase, expenditure, savings and tax evasion, simultaneously examining problems and solving them. An all-out investigation should be conducted on financial and tax departments at all levels as well as on every cadre in December, including promotion of production, policy implementation, fulfillment of assignments, work performance levels, etc. Beginning next January, all areas should hold meetings to exchange work experience in financial and tax affairs, sum up experience, commend the advanced in order to lay a good foundation for doing a good job of tax collection in 1985."

During the conference, Zuo Chuntai [1563 2504 0669], vice president of the China Finance Association, was invited to make a report titled, "Resolutely and Unwaveringly Implement the Second Phase of Substituting Tax Payment for Profit Delivery".

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CSO: 4006/3

ECONOMIC MANAGEMENT

JINGJI GUANLI ON CONSCIOUS APPLICATION OF LAW OF VALUE

HK250859 Beijing JINGJI GUANLI in Chinese No 1, 5 Jan 85, pp 13-16

[Article by Shen Liren [3088 4539 0086]: "Planned Economy and the Conscious Application of the Law of Value"--responsible editor: Ding Jia Tiao [0002 1367 4383]]

[Text] The "Decision of the CPC Central Committee of the CPC on Reform of the Economic Structure" put forth: "Establish a system of planning which consciously applies the law of value, and develop socialist commodity economy." This document, which guides our country's reform of the economic structure, has specifically pointed out the kind of planning system we need and has linked it directly with developing socialist commodity economy. It is of great theoretical and practical significance.

Relationship Between Practicing Planned Economy and Developing Commodity Economy

One of the basic characteristics of socialist economy is the practice of planned economy on the basis of public ownership of the means of production. Since the founding of our country, it has made remarkable achievements in socialist construction, which has initially displayed the superiority of the socialist system, including the superiority of planned economy. Therefore, generally speaking, when we reform the economic structure, we must continue to uphold the practice of planned economy and not abolish the fundamental system of planned economy. There are some flaws and shortcomings in regarding planned economy as a specific form of production relations, and we must overcome these flaws and shortcomings in reforming the economic structure, perfecting it in order to suit the demand for development of social productive forces.

Our reform is to integrate fundamental Marxist principles with our actual situation and to establish a Chinese-style economic system and system of planning. The flaws in the original planning system were excessive and overrigid control and attempts to include all socioeconomic activities in planning and to carry out implementation relying merely on administrative orders. This not only deviated from the national conditions of having a vast territory and being densely populated, of inconvenient transportation, inadequate communications, and unbalanced economic and cultural development, it also, to a great extent, neglected the important roles of economic levers and regulation by the market. In the final analysis, we set planned economy against commodity economy and

were unable to consciously apply the law of value. The consequences were that objective and subjective conditions deviated from each other, planning and reality were detached from each other, and the development of commodity economy was affected.

Economic circles in our country have carried out repeated discussions for a long time on the relationship between planned economy and commodity economy. After discussions, the majority of comrades discarded the antagonistic theory of "either this or that," and affirmed that socialist economy is not only planned economy but also possesses the nature of commodity economy. Commodity economy is not an independent form of production but a lengthy process of economic development, extending from the later stages of primitive society to socialist society. Why does commodity economy still exist in socialist society? Apart from the social division of work and socialized production, various economic forms exist due to the existence of the two kinds of socialist public ownership system. Commodity monetary relationships still exist inside the whole-people ownership system and they are particularly determined by the relationships of material interests which are characteristic of socialist society. Under the present conditions of the system of public ownership of the means of production, on the one hand, unanimity in people's material interests gives rise to the necessity and possibility of practicing planned economy; on the other hand, the fact that labor is still a means of earning a living creates differences between people and society and between various business units and gives rise to the necessity and possibility of retaining and developing commodity economy. At the present stage of socialism, society still lacks the objective conditions to directly possess and distribute all products, and commodity economy cannot be abolished. Not only are consumer materials commodities, but so also are the means of production; the commodity relationship exists not only among different ownership systems but also inside the whole-people ownership system. The "decision" pointed out: "The full development of commodity economy is an inevitable stage of social economic development." That is to say, it is only an empty wish if a country wants to transit from a self-sufficient or semi-self-sufficient economy, or from an underdeveloped commodity economy, to a communist production economy without passing through the stage of vigorously developing commodity production and commodity exchange. In our country at present, it is necessary to develop commodity economy in rural areas, and the urban areas should also develop commodity economy. Developing commodity economy means developing social productive forces which enable us to gradually achieve economic modernization in our country.

Certainly, what exists objectively at present and should be developed is socialist commodity economy, and it is different in nature from capitalist commodity economy. The differences can be summarized into three points: First, different ownership systems. Socialist commodity economy is based on a public ownership system, there is no exploiting class and the laboring masses are masters of their own house, the objective of developing commodity economy, that is, developing production, is to ensure that to a great extent the growing material and cultural demands of the society and the people can be met. Second, the extent is different. Under our country's socialist conditions, the labor force is not a commodity; nor are land, mines, banks, railroads or other national enterprises and resources (this does not imply that no attention is paid to applying the law of value in managing these enterprises and exploiting these resources). Third, socialist commodity economy and socialist planned economy are interrelated and unitary. It is essential and possible consciously, that

is, in a planned way, to apply the law of value on the scale of the whole society in order to avoid the anarchy and periodic economic crises which are inevitable in the development of capitalist commodity economy. The three differences show that it is totally wrong to regard developing socialist commodity economy as developing capitalism and to confuse their boundaries.

It Is Necessary to Consciously Apply the Law of Value in Developing Commodity Economy

We must work in accordance with the objective laws of commodity economy in developing socialist commodity economy. The basic law of commodity economy is the law of value. The law of value must play its role in societies in which commodity production and commodity exchange exist. Although socialist commodity economy and capitalist commodity economy are different, they both belong to the category of commodity economy and the role of the law of value is similar. This will not change according to people's subjective will.

There are three attitudes to adopt toward the law of value, as with other economic laws:

One of them is to allow it to play its role spontaneously. Under the conditions of small commodity production based on private ownership of the means of production and capitalist commodity economy, the law of value plays its role as a spontaneous market force behind the producers. It will only play its role following the occurrence of inadequate supply or inadequate demand. This naturally creates blind competition and imbalance proportions, leading to serious loss of social wealth.

Another is artificially denying or restraining its role. In the past and under the manipulation of "left" ideology, we denied commodity economy and regarded the law of value as an "alien force," intending to restrain or abolish its role. As a result, commodity economy did not achieve the development it deserved and production and circulation were affected, and such influences are still having effects today.

The other is to consciously apply the law of value. This is a condition created by the socialist system and is the only correct attitude and the one we should adopt. Under the conditions of the socialist public ownership system, we adopt planned economy, and while we consciously apply the law of planning, we must simultaneously apply other economic laws, including consciously applying the law of value. That is to say, regarding the law of value, we must recognize it, understand it and master it, and gradually and consciously apply it. Certainly, consciously applying the law of value does not imply that we can do things according to our own wishes or reform the law of value, but that we must work in accordance with the objective law, giving full play to its active role.

Under socialist conditions, the role of the law of value is mainly manifested in two areas:

It is necessary, on the one hand, to consciously apply the regulatory role of the law of value and integrate it with the planning laws to ensure the proper-

tional development of the national economy. In order to achieve smooth realization of social reproduction, all societies are objectively required to proportionally distribute social labor (animate labor and materialized labor) according to demand in order to speed up the harmonious development of various departments of the national economy. Under the capitalist system, this is achieved by means of spontaneous regulation by the law of value. Under the socialist system, it is achieved by relying on the law of planning, which means implementing planned economy. However, since the law of value plays its role in the existence of commodity economy, in the course of implementing planned economy, we must also apply the law of value and give play to its regulatory role. From a macroeconomic point of view, state plans primarily represent overall, long-term and in the course of implementing planned economy, we must also apply the law of value and give play to its regulatory role. From a macroeconomic point of view, state plans primarily represent overall, long-term and unitary interests. Whether or not such plans gain the conscious response of the enterprises and the workers and whether or not they strive to realize the plans depend on whether or not they can integrate the enterprises' interests with the workers' individual interests. Thus, in implementing the plans, we must consciously apply the law of value. For instance, only by fixing appropriate planned prices or other economic policies can we realize the plans. In the past, agricultural proportions were irrational and this was, to a great extent, due to irrational prices among various crops; when the prices and the relevant policies were later gradually readjusted we were able to rationalize the ratios between the cultivated area and production output of various crops. In addition, under certain circumstances, temporary divergence of price and value is another form of giving play to the role of the law of value. As far as commodities in short supply and commodities production of which should be increased are concerned, it is necessary to appropriately raise prices while simultaneously making planned arrangements in order to stimulate production and investment; as far as surplus commodities and commodities production of which should be reduced are concerned, it is necessary to appropriately lower prices in order to restrict production and investment. The greater and extent of production increases or reduction, the larger the extent of price increases or reductions. The "decision" pointed out: "prices are the most effective means of regulation." Planned economy cannot deviate from or replace this "most effective means of regulation"; otherwise, we will be lacking one limb. If planning and prices are contradictory, each acting in a way that defeats the other's purpose, or when there are situations in which "prices are effective while planning is not," the smooth realization of the plans will be affected.

On the other hand, it is necessary to consciously apply the accounting role of the law of value, to incessantly practice economy in labor consumption, and to improve economic results. All societies must practice economy in labor consumption in order to gradually develop production and improve labor productivity. Under the capitalist system, this is also achieved by means of the accounting role of the law of value: each commodity producer, in order not to be defeated in market competition and to gain maximum profits, must try by every possible means to improve production techniques and business management, practice economy in labor consumption to lower production costs, and strive to keep the individual value of his products lower than the social value. This speeds up the development of capitalist social productive forces and is a historic achievement of the law

of value, denying the value index accounting of production costs, profits, capital, and so on led to a one-sided pursuit of quantities of spot commodities (including the production value index). As a result, production costs were not considered in production, profits were not considered in business, production costs were high and profits were low or there were even deficits, large amounts of capital were used, and circulation was slow. All this restricted both accumulation and expanded reproduction. The "decision" put forth have we should strengthen the enterprises' vitality and motivate workers' enthusiasm. Only by consciously applying the law of value and guiding the workers' enthusiasm in the direction of strengthening economic accounting and improving economic results and by tapping the great internal potentials can the entire socialist economy be incessantly developed.

Specific Content of Consciously Applying the Law of Value

It is necessary to clarify the relationship between the two in consciously applying the law of value in planned economy. From the point of view of form, things are either within or outside planning after breaking away from the old practice of having everything included in planning. However, this is only an external integration [word as published] and the two parts are not as clearly separated as two sheets of paper. From the point of view of essence, the more important thing is internal integration, the mutual interpenetration. In other words, it is necessary to consciously apply the law of value in planned economy; simultaneously, the law of value also plays its role within the scope of planned economy. [sentence as published] As viewed from various basic points of our country's future system of planning, we can see the following:

First, in the entire national economy, except for one portion not implementing planned management, a certain proportion of production and exchange will not implement planned management and is entirely subject to market regulation, regulation which is spontaneously carried out by the law of value, and the balance of supply and demand is achieved by means of market price fluctuations. However, it is still subject to the indirect control and influence of planned management and the conscious application of the law of value to varying degrees. For instance, its scope can be fixed according to planning, it can be expanded or reduced; the major raw materials needed in production must be arranged through planning, its purchasing power is also restricted by the planned balance; there is a relationship of comparison between its own prices and planned prices of certain major raw materials and major commodities. There is a difference compared with complete market economy in these aspects, and thus it is still a supplementary but indispensable part of the overall planned economy.

Second, the area of planned management is divided into two specific forms, one of which is mandatory planning. This must be implemented and is compulsory. However, it is also necessary to consciously work in accordance with the law of value. Otherwise, it will be hard to achieve it smoothly. For instance, the prices of certain mineral products and raw materials are low, and mandatory production and allocation plans assigned by the state always fail to be linked with the material interests of the enterprises and workers, affecting their enthusiasm in fulfilling the plans. The supply and marketing prices and the

procurement and marketing prices of certain products are reversed in certain cases, the higher the allocations and production, the greater the losses, and enterprises and workers do not want higher production and allocations. Thus, we must apply the law of value in implementing mandatory planning, turning its compulsory nature into a conscious one; otherwise, the law of value will spontaneously play an "antiregulatory" role and we will encounter difficulties, whether major or minor, in implementing mandatory planning.

Third, another specific form of planned economy is guidance planning. As far as this area is concerned, the state announces plans after arriving at a comprehensive balance, they are compulsory to a certain extent but not all enterprises are forced to accept them, and the plans are achieved mainly by relying on economic levers such as price and so on. The enterprises can carry out necessary readjustments to the assigned guidance plans in accordance with the market situation and their own conditions. Obviously, in the course of fixing plans for enterprises, it is necessary to consider the relationship between the economic levers and the material interests of the enterprises, apart from considering the macrosituation and demands reflected by guidance plans. If the two are unitary, the enterprises will accept the assigned guidance plans; if the guidance plans do not suit the actual situation of the market and the enterprises and are in contradiction to the economic levers, the enterprises must readjust the plans and strive for a unity of the two. Such planning will give the enterprises appropriate enthusiasm to strive to accomplish the plans. In light of this, accomplishing guidance planning depends on whether or not it suits the actual situation and whether or not it suits the economic levers.

The "decision" also put forth that: "It is necessary to reduce the scope of mandatory planning in a planned way, and to expand the extent of guidance planning." This is because we have treated planned economy as mandatory planning and thought that more mandatory plans meant better planning and surer comprehensive balance, thus leading to mandatory planning to an excessively large extent. Reality has proved that as far as major economic activities of overall significance, state-allocated portions of major products related to the people's livelihood, key construction projects are concerned, it is necessary to adopt mandatory planning, particularly, as far as natural resources which are always in short supply are concerned. However, mandatory planning to an excessively large extent which does not suit our country's actual situation will inevitably breed bureaucracy and subjectivism. Also, it will fetter the enthusiasm and creativeness of the enterprises and workers. Thus, it will be detrimental to promoting a comprehensive balance and to improving economic results. At present, guidance planning and regulation by market mechanism have been adopted in economic activities and, in regard to large numbers of products. This realizes integration of unity and flexibility and will enable us to do a good job in exercising effective control over major aspects and allowing flexibility in minor ones. Guidance planning possesses the advantages of integrating they state with the enterprises, integrating macro balance with micro activities, integrating planned management with economic levers, and integrating subjective predictions with objective feedback, and it is conducive to ensuring the practical significance of plans. To what extent mandatory planning should be reduced and guidance planning should be expanded must be determined by economic relations and the speed of the reform on the economic structure.

Also, consciously applying the law of value to the entire economic structure means consciously applying various economic levers, represented by price, to give play to its multiple functions. The extent of economic levers is very broad, including price, finance, taxation, credit, production costs, profits, interest, remittances, subsidies, bonuses, and so on, not all of which are matters of value but which are directly or indirectly related to value. Implementing planned economy under the conditions of commodity economy, we must assess social supply and demand, raw materials distribution, and resources utilization by means of this category of value and the role of the economic levers. The economic levers reflect the monetary relationship of various commodities and are the tools with which to handle relationships of various material interests. When we apply them as an approach it means applying relationships of various material interests to guide or regulate various macroeconomic and microeconomic activities. This is where the essence of using economic means to manage economy lies.

We must attach importance to applying various economic levers in consciously applying the law of value in planned economy. The regulatory role of prices has been mentioned above. As far as the comprehensive balance of macroeconomics is concerned, we must still apply finance, taxation, credit, and other economic levers to regulate total social supply and demand, accumulation and consumption, and other major proportions, to regulate the movement of financial, material and human resources, to regulate the product mix and the distribution of productive forces, to regulate market purchasing power and commodity supply, to regulate foreign trade and foreign remittances, and so on. In the past, we were used to adopting an administrative approach to push forward economic development, and were unable to get good results with great efforts because we had not applied the internal mechanism of economic operation. Sometimes, our efforts will be in vain if the economic levers do not work in line with each other. In reforming the economic structure at present, we must integrate reform of the system of planning with reforms of the systems of finance, taxation, monetary affairs, materials, labor, and so on, strengthen comprehensive application of the various economic levers, and comprehensively and systematically give play to the role of the law of value in serving planned economy.

CSO: 4006/483

ECONOMIC MANAGEMENT

BRIEFS

SHANGHAI INFRASTRUCTURE—Shanghai will spend 890 million yuan on improving the city's infrastructure this year, an increase of 100 percent over 1984, LIBERATION DAILY reports. Two railway bridges, 10 overpasses, two motorways, six sewage treatment plants and two sewers, some of which are already under construction, will be completed this year according to the city's plans. Also, an additional 65,000 households will be linked up to the gas mains, and another 32,000 to the water mains by the end of this year. [Text] [Beijing CHINA DAILY in English 8 Mar 85 p 3]

CSO: 4020/141

FINANCE AND BANKING

FINANCIAL MANAGEMENT IN FOREIGN TRADE ENTERPRISES DISCUSSED

Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 4,
Jul-Aug 84 pp 52, 49

[Article by Guo Shisheng [6753 0013 3932]: "Further Discussion on Financial Management System in Foreign Trade Enterprises"]

[Text] Comrade Zhang Ping [1728 1627] put forward a proposal on "transferring the management of financial affairs to a lower level and channeling profit and loss into local finance" in his article entitled "A Simple View on Reforming the Financial Management System of Foreign Trade Enterprises" which was published in Issue No 1 of 1984 of GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL]. This question is open to discussion.

1. Transferring financial affairs to a lower level and channeling profit and loss into local finance actually means horizontal financial management.

It should be said that horizontal financial management indeed can play a certain positive role in strengthening economic accounting in foreign trade enterprises and promote local financial development; but it is also undeniable that the outcome of horizontal financial management may also bring forth a negative aspect. We should analyze the advantages and disadvantages of "vertical" or "horizontal" management so as to establish a scientific management system. In this writer's humble opinion, at a time when the state financial strength is still not too solid, as is the case now, it is better to keep the vertical system of financial management in foreign trade enterprises. Specifically speaking:

1. In the premise of developing the national economy in a planned and proportionate way, steps may be taken to unify foreign trade relations to insure the overall interests of the state. Since the financial management system is a subordinate part of the foreign trade system as a whole, various financial management methods are closely centered around how to realize the various circulation plans relating to foreign trade. If contract responsibility is to be implemented in the financial affairs system, it will mean that the power to operate foreign trade will be transferred to the local authorities. Such a practice will have an impact on the market and undermine the balance and the state will be the sufferer in the end. Foreign trade means trade between countries, thus only by unifying foreign trade relations under the guidance of the state plan can the market be opened to the maximum extent and trade

developed. Guangdong Province, which has been experimenting with the contract responsibility system for foreign trade since 1981, has begun to link up with the central authorities again in foreign trade matters starting this year, this reflects the objective demands of the foreign trade management system.

2. Implementing a vertical system of financial management can guard against transregional panic purchasing and protect the domestic market. If the system of letting the local authorities take responsibility for foreign trade is instituted, the local authorities may operationally and out of local interests engage in transregional panic purchasing, thereby undermining the economic system of a province, hampering the coordinated linkup of one locality with another and even affecting local economic development.

3. Implementing the vertical system of financial management can also guard against the phenomenon of having overstaffed organizations crammed full of superfluous personnel and minimize administrative expenses. If various localities are to take responsibility for the management of financial affairs, corresponding organizations will have to be set up naturally and personnel will be expanded, resulting in the increase of cost outlays and also more often than not decentralizing the overall management of state funds.

II. Views on reforming the financial management system currently in effect within the foreign trade framework.

1. Steps should be taken to implement the economic responsibility system at all levels, decide on the target of taking responsibility for foreign trade, strengthen economic accounting and raise economic results. The ministry will decide on various financial targets for the general corporations, the various general corporations will hand them down to the branch offices, the branch offices will hand them down to the subbranch offices and evaluation will be made monthly according to the rate of progress. In checking and appropriating money to offset losses monthly, the excess losses incurred by those which broke through the targeted rate of progress will not be replaced, as for units which realized profits in excess of the rate of progress (cutting losses), they may be exempted from delivering profits to the state and may retain the profits in excess of the rate of progress as the enterprise working capital to develop business operations for the next stage. The responsibility, power and interests of the enterprises should be objectively unified through the monthly delivery of profits and appropriation to cover losses.

2. Steps should be taken to perfect various rules and regulations and systems, implement rules governing awards and penalties and give due consideration to the interests of individuals, enterprises and the state in a united way. For enterprises which have managed to increase profit and cut loss, profit-sharing awards will be given; for enterprises which incurred bigger losses and reduced profits, economic measures will be taken to see to it that they must begin to earn profits within a given time limit. To this end, the Ministry of Foreign Economic Relations and Trade should formulate a set of rules governing awards and penalties by combining the operational achievements of the enterprises with the individual economic benefits so as to subjectively arouse the enthusiasm of the broad masses of workers and staff members, promote the tapping of latent

potential, innovation and transformation by enterprises and steadfastly raise the level of operation and management.

3. Practical steps should be taken to strengthen the unified control of the prime cost of export commodities nationwide. In financial management, export cost will be the major feature of assessment. In the meantime, export foreign exchange receipts and domestic cost may be linked up to avoid such phenomena as paying no attention to operational results by enterprises, exclusive pursuit of purchases and exports and the squeezing of foreign trade by the localities.

4. While doing a good job in vertical financial management, steps should be taken to gradually integrate departments and regions. Since foreign trade is facing both the domestic and overseas markets, the basic goal of improving the overseas market is for the development of the domestic market. The domestic market, on the other hand, is governed by the local economic system, thus involving the question of central finance and local finance. The development of foreign trade is inseparable from the support of local finance and once foreign trade is developed, consideration should be given to local economic benefits. Therefore, in the financial management system, it is necessary to organically integrate the economic benefits of central finance with those of local finance and practice foreign exchange sharing. A portion of the plan governing export commodities should be controlled and deployed by the local authorities and the income therefrom should be included in local finance so that the localities and foreign trade will have a common objective with regard to economic benefits to promote a coordinated development of the national economy as a whole.

12662

CSO: 4006/227

FINANCE AND BANKING

PRC GOLD PRODUCTION UP, PURCHASE PRICE RAISED

HK220641 Beijing CHINA DAILY in English 22 Mar 85 p 1

[Article by staff reporter Liu Dizhong]

[Text] Although China's gold production hit an all-time high last year, it was still not enough to meet a massive increase in the demand for jewelry.

An official of the China Gold Company told CHINA DAILY yesterday that gold production went up 10.7 percent last year.

And the first 2 months of this year showed a 9.2 percent rise over the same period of [last] year, meeting 17 percent of the planned annual quota.

The increased figures are the result of a gold rush which started in 1978 when individuals and collectives were given permission to mine gold.

About half of last year's gold output, which doubled 1977 figures, was produced by rural prospectors. It is estimated that nearly 100,000 former peasants are involved in the nationwide gold fever.

More than half of them are individual panners and the rest are working in small gold mines run by local governments and collectives, the official said.

In an attempt to encourage more people to mine gold, the state has raised the purchase price from 497.60 yuan an ounce to 696.64 yuan since 1 February.

This is also aimed at reducing the gap between the domestic and the world price, which is believed to have contributed to a smuggling problem.

Last year, China customs officials confiscated more than 17.398 grams of gold as it cracked down on attempts to smuggle it out of the country.

The problem has been most serious in gold-producing provinces, including Inner Mongolia in the north, Shandong in east, Qinghai and Gansu in the west and Guangdong and Guangxi in the southeast.

Strict measures have been introduced this year in many provinces to beat the smugglers. A special office has been set up in Inner Mongolia under the local government to fight the smugglers.

In Shandong, where a quarter of the nation's gold is produced, a recent circular stipulates that prospectors must sell their gold to the government. It warns that stiff penalties will be taken against the smugglers.

The official said it is planned to double the 1980 gold production figure by 1990 and quadruple it by the end of the century.

The nation's gold reserves at the end of last September stood at 12.67 million ounces.

But in the past 2 years long queues have formed in China's large cities to buy gold jewelry and gold production has failed to meet this demand.

In Shanghai gold jewelry retail sales in October-December last year reached more than 10 million yuan at the price of 1,500 yuan an ounce, about 30 percent higher than world prices, said an official of the Art and Handicrafts Company under the Ministry of Light Industry.

The popularity of gold jewelry is partly due to the increase in incomes in the past few years as well as to the restoration of some traditional customs, the official said.

Gold ornament production in China can be traced back about 4,000 years. However, wearing gold rings or earrings was regarded as "following the bourgeois way of living" in past decades, particularly during the 10 years of the "cultural revolution".

Now, the official said, it has gradually become the practice among some young couples to give gold rings or necklaces rather than wrist watches to each other as tokens of their engagement.

It was not until October 1982 that the gold jewelry market reopened. Jewelry production will be greatly expanded this year to meet the urgent demand of customers, the official said.

CSO: 4020/154-F

FINANCE AND BANKING

BRIEFS

LIAONING URBAN WORKERS' INCOME--The per capita income of urban staff and workers of Liaoning Province reached 645 yuan in 1984, 88 yuan more than in 1983. Thus, the province overfulfilled the quota of 620.9 yuan as set forth in the Sixth 5-Year Plan ahead of schedule. [Summary] [Shenyang LIAONING RIBAO in Chinese 6 Mar 85 p 1 SK]

HEILONGJIANG AGRICULTURAL LOANS--This year, Heilongjiang Province will issue 740 million yuan in agricultural loans, of which, 93 percent will be issued to family-run farms and specialized households. [Summary] [Harbin Heilongjiang Provincial Service in Mandarin 1000 GMT 18 Mar 85 SK]

SHANGHAI JEWELRY PRODUCTION INCREASE--Shanghai, 21 March (XINHUA)--Shanghai plans to fashion 6.2 tons of gold into jewelry this year, mostly top quality 24k, the city's arts and crafts company announced here today. This production figure is six times that of 1984. The number of the factories will be doubled to four and equipment will be imported from Italy, Federal Germany, the United States and Hong Kong, an official said. Gold jewelry is becoming increasingly popular in China as living standards rise. The official ban on sale of gold jewelry, which was condemned as a bourgeois luxury in the late 1950s, was lifted nationwide 3 years ago. A shop in downtown Shanghai sold 1.82 million yuan worth of the precious trinkets in the first 24 days after it reopened on 1 February. Customers now sometimes queue up early in the morning in front of the shop before it is open for business. In all, the city's gold jewelry sales in the first 2 months of 1985 were five times the figure for the same period of 1984. The percentage of younger people among the buyers is steadily increasing, and this includes more peasants who come in from the countryside to buy. Previously, gold jewelry was sold only in a few big cities such as Beijing, Shanghai and Guangzhou. Now it is available in most places. [Text] [Beijing XINHUA in English 1510 GMT 21 Mar 85]

CSO: 4020/154-F

MINERAL RESOURCES

BRIEFS

NEI-MONGGOL MARBLE PRODUCTION AGREEMENT--In early March, Naiman Banner, Nei Monggol Autonomous Region, signed an agreement with the Fuxin Mining Bureau of Liaoning Province on developing production of marble at (Baiyuchang) in the banner. Under the agreement, the Fuxin Mining Bureau is responsible for providing mining machines and electric installations for the project. According to estimates, the annual output of marble is expected to reach 20,000 cubic meters of marble. [Except] [Hohhot Nei Monggol Regional Service in Mandarin 1100 GMT 19 Mar 85 SK]

NONFERROUS METAL INDUSTRY--Beijing, 27 Feb (XINHUA)--China's nonferrous metal output last year increased by 9 percent. This means the target set in China's Sixth 5-Year Plan was reached a year ahead of schedule. Thanks to reform, the China Nonferrous Metal Industry Corporation, which was established in April 1983, last year increased its profits and taxes delivered to the state by 16.6 percent. [Summary] [Beijing XINHUA Domestic Service in Chinese 1202 GMT 27 Feb 85 OW]

HEILONGJIANG GOLD PRODUCTION--Heilongjiang Province plans to boost gold production in 1985 in order to win a second place in gold production in China. Eight prefectures and cities and 29 counties in the province mined gold in 1984. They overfulfilled the state gold mining plan by 15.6 percent, an all-time high. [Summary] [Harbin Heilongjiang Provincial Service in Mandarin 1000 GMT 14 Mar 85 SK]

CSO: 4006/470

15 April 1985

INDUSTRY

INDUSTRIAL OUTPUT RISES IN ZHEJIANG

Hangzhou ZHEJIANG RIBAO in Chinese 23 Aug 84 p 1

[Article: "Gross Value of Zhejiang's Industrial Output Up 10 Percent on Average"]

[Text] Since the PRC was founded, Zhejiang has set up over 80 key enterprises. Their going into operation has accelerated the development of industrial production, resulting at the same time in the gradual and rational distribution of industrial bases throughout the province.

In the early stages of liberation, Zhejiang's industrial foundation was very unsound, the gross value of its industrial output amounting to merely 405 million yuan concentrated mainly in Hangzhou, Ningbo and Wenzhou. The present prospects have changed dramatically, with modern chemical, electric power, metallurgical, light and textile, and mechanized processing industries operating in both mountainous and inland areas. For example, key industries, such as the Shuzhou Chemical Plant, Sinanjiang Hydroelectric Power Plant, Fuchunjiang Hydroelectric Plant, Jiangshan Cement Mill, Lanjiang Metallurgical Plant, Changqiang Colliery, Guji Silk Textiles Weaving Mill, Lungyou Paper Mill, etc., are located all over mountainous and inland areas to propel local economic development. According to statistics, the gross value of industrial output of the three cities of Hangzhou, Ningbo and Wenzhou has over the past 35 years gone up 10.6 percent a year on the average, with 11.2 percent in other areas.

These key enterprises have promoted the coordination of Zhejaing's industrial structure while basically promoting the growth of all industrial sectors. In the earlier stages of liberation, Zhejaing produced only a small quantity of silk and some light textiles, without any heavy industrial plant to speak of, except handling some simple mechanized processing jobs and repairs and assembly. Following the operation of such key industrial enterprises provided with comparable advanced equipment as Zhenhe Petrochemical General Plant, Zhejaing Hemp Spinning and Weaving Mill, Hangzhou No 2 Cotton Spinning and Weaving Mill, Giaxing Wool Spinning and Weaving General Mill, Hangzhou Combined Silk Printing and Dyeing Mill, Hangzhou Synthetic Fibers Mill, Hangzhou Steel Plant, Hangzhou Steam Turbine Plant, Hangzhou Power Generating Equipment Plant, Hangzhou Gear Box Plant and Hangzhou Glass Plant, etc. At present, Zhejiang offers

complete lines of textile goods ranging from cotton, woolen, hemp and silk textiles to knit, printed and dyed goods and synthetic fibers, apart from a dazzling array of light industry products and complete lines of heavy industry items. The present output per hour consists of 36 tons of cast iron, 51 tons of steel, 56 tons of steel products, 39 tons of coke, 158 standard crates of plate glass, 561 tons of cement, 58 tons of chemical fertilizers and 185 tons of processed crude oil. Product quality has also reached a new level, for example, gear boxes, 10,000-m³ capacity oxygen generators, three-tiered modular-type industrial steam turbines, high-precision plane grinders, as well as complete sets of mining equipment and small hydroelectric generators, etc., all affecting to a certain extent both domestic and international markets. The export of industrial products has proceeded from nothing to something, from single-item production to complete sets and from product export to technology export. Zhejiang is short of coal and power, particularly lacking in energy resources and transportation. Since liberation and especially the Third Plenum of the 11th CPC Central Committee, the leadership at all levels from the provinces to local units has paid attention to using limited financial, material and manpower resources for building up energy sources and communication. The importance attached to these matters has resulted in the rapid development of electric power and communication. Such key engineering projects as power generating plants at Zhenhai, Taizhou and Banshan have begun operation. The completion of ports at Beilun and Zhenhai as well as the progress made at the Ningbo-Beilungang Railway and other projects have created positive conditions for the development of the provincial economy and increased its potential.

12661

CSO: 4006/3

CONSTRUCTION

NEW METHODS IN HARBOR CONSTRUCTION

Guangzhou NANFANG RIBAO in Chinese 7 Dec 84 p 1

/Article/ by Tao Guangyuan /7118 0342 0337/, Wu Jinglong /0702 4552 7893/, Ye Jiaqi /0673 0857 4388/ and Xie Ming /6200 5407/: "Same Year Planning, Construction and Operation; Zhongshan Harbor Sets High Speed Record for Harbor Construction"/

/Text/ Zhongshan's harbor has undergone nearly 6 months of intense construction. At present the cargo dock is already in use, and it is estimated that the first phase of the project can be completed before the Spring Festival, achieving the designing, construction and start of operations all in the same year.

Zhongshan harbor is located in the Zhangjiabian-Hengmen waterway in one of eight large entrances to the mouth of the Zhu Jiang. The waterway is the strategic passage to the sea for the Bei Jiang and Xi Jiang where the river and sea intersect. The water is deep and the waves calm. It is a natural harbor with excellent natural conditions. It is only 55 nautical miles from Hong Kong and takes only a little more than an hour by hydrofoil boat. The harbor currently can moor 5,000-ton steamships and after dredging it will be able to moor 10,000-ton freighters.

Since Zhongshan changed from a county to a city it has quickened the economic development of the city as a whole in order to implement the economic policies of opening up to the outside and energizing the inside. In March of this year it promptly began to set about the construction of Zhongshan harbor. On 12 May of this year, the State Council formally approved Zhongshan harbor as a harbor open to the outside, and in June it formally pulled open the curtains on the harbor construction. The Zhongshan Municipal CCP Committee and the Municipal People's Government attach great importance to the construction of Zhongshan harbor. Many times the Municipal CPC Committee has held meetings to investigate the major problems of the harbor construction, and it suggested the battle slogan "Bravely struggle for 8 months to achieve the opening for navigation before the 1985 Spring Festival." To strengthen leadership the Municipal CCP Committee assembled every grade of military force and organized a highly capable commanding body having the participation of the principal leading cadres of the planning committee, construction committee, the port system and other units. The principal leading comrades of the command post assumed personal command of

the harbor region, immersed themselves in the realities of the situation and solved the problems. The construction force of the city as a whole is solid, and all the construction ranks whose construction quality was better came to the harbor first to contract for the construction project. They adopted the methods of completing a project within the specified time, giving rewards for exceeding the quota and punishing those who don't finish, and they constantly improved efficiency. The project for which the Zhongshan First Municipal Construction Work Area contracted had a fairly high degree of difficulty and at the beginning the rate of progress was rather slow. Li Zhijie /2621 1807 2638/, who was chairman of the Municipal Construction Committee and concurrently the assistant general director of the harbor Construction Command Post, continuously for several days and nights worked with technical personnel to summarize exploratory experiments and adopted the method of dividing up the construction. The masonry, carpentry and ironwork were combined in a staggered three-shift system, and there was continuous 24-hour construction. As a result, regaining the initiative, the tall multipurpose building that they were responsible for was topped off 12 days ahead of schedule. In order to speed up the project's rate of progress, every construction unit that contracted in the harbor construction also broke free from conventions, universally implementing the practice of taking a task and dividing it into sections and levels down to teams. They used bonuses where they would be put to best use, rewarding where there should be reward, punishing where there should be punishment and united the project's rate of progress and quality with the vital interests of the construction workers, thereby arousing everyone's enthusiasm and ensuring the smooth progress of the project. There is still another important reason for Zhongshan harbor's rapid pace of construction. It is that the minds of every department are directed toward one place and the energy is directed toward one place; they work in coordination and twist to form a string of rope. After the curtains on the harbor construction project were pulled open, the construction workers and planners from the command post (office) frequently went to the site together. When they discovered problems they consulted with one another and right away made decisions that would solve them, thereby greatly improving work efficiency. Among the contract units, when one party has difficulty all the others support it together, and when there are problems everyone bears them. When the rate of progress of the Seventh Municipal Construction Work Area slowed because the pile machinery facilities fell behind, the Fourth Municipal Construction Work Area immediately gave up some pile machinery and helped the Seventh Work Area drive more than 300 piles in a hurry, guaranteeing that the Seventh Work Area completed its task on time.

12895

CSO: 4006/300

CONSTRUCTION

INNOVATIVE METHODS SPEED HARBOR CONSTRUCTION

Guangzhou NANFANG RIBAO in Chinese 7 Dec 84 p 1

/Article/ by He Shaoying /0149 1421 5391/, Liu Gaohua /0491 7559 5478/ and Li Hesong /2621 7729 2646/: "Flowering of Reforms Brings High Speed Construction; Initial Project of Shenzhen Chiwan Harbor Completed; State Investment Refused, Raised Own Construction Funds; Constructed While Using Harbor and Expanding Reproduction; Produce Output Value of Nearly ~~UP~~ 200 Million in 2 Years"⁷

/Text/ Our nation's first new kind of large harbor that employs the construction method of building the harbor while also using it and expanding reproduction--Shenzhen Chiwan harbor--required only 2 years' time to complete the first phase of the capital construction project. It has enabled what in earlier days was a deserted and desolate bay to become an oil supply base and deep water harbor now beginning to take shape. It has also made a contribution to the construction of the Shenzhen Special Economic Zone and the exploitation of oil in the south. People praise this as "Chiwan speed."

Shekov has 3 km of frontage on Chiwan harbor. In 1981 the State Council, based on the requirements for opening up the south sea oil fields, proposed that a large-scale harbor be constructed at Shenzhen Chiwan using the method of refusing state investment and instead raising funds from the enterprise itself. In June 1982 eight companies, the China Merchants Steam Navigation Company, Ltd, the Ministry of Petroleum and so on, pooled resources and formed an economic entity with independent accounting and sole responsibility for its profits or losses, the China Nanshan Development Co, Ltd. It was responsible for Chiwan's construction, and in August of that year it began to build the harbor. By June 1983 it had constructed a 20-ton grade deep water dock that is 200 meters long and has the functions of loading and unloading sundry goods, containers and bulk sacks of chemical fertilizers, as well as many other kinds of functions. It was constructed in about a year's less time than the construction rate for regular deep water docks. In June of this year it also constructed a specialized use dock 300 meters long that can accommodate four oil tankers and at the same time carry on operations. At present the area extends over 670,000 square meters of the harbor hinterland. It has already brought in a water and power supply, opened the area to traffic, ships and telecommunications and completed the site leveling project. It has constructed a group of workers' residences and buildings for offices, production and public facilities, as well as other buildings. It has built 28 new villa-style villages for the original

residents of Chiwan, and has established a microwave communications station, coastal broadcasting station and cement products plant. In the process of constructing the harbor, Chiwan harbor implemented the new method of building while also using the harbor and expanding reproduction. Besides the two docks launching complete loading and unloading operations, the harbor actively cooperated with related companies, engaged in many kinds of production and as quickly as possible gave free rein to the benefits of investment. For example, the harbor and the Singapore Marine Services Co formed a joint investment company and jointly run the Chiwan harbor oil base; the harbor joined with the Norwegian Chemical Fertilizer Production Co in setting up operations for the bulk chemical fertilizer sacks; it jointly launched bulk cement operations with the Hong Kong Wan /Bang 5502 6721/ Shipping Co; and with the Hong Kong Ocean Shipping Hui Co it jointly invested in and manages the Chiwan Commercial Center, and so on. As a result of devoting major efforts to developing comprehensive production and urging the harbor to strengthen its vitality, the handling capacity and revenue have doubled and redoubled season after season. The handling capacity and revenue for the first quarter of this year matched the totals for the second half of last year; the second quarter of this year was double the first quarter. At the same time the harbor promptly took the recovered portion of the funds and used it as the company's capital for shares, put it into expanding reproduction and accelerated Chiwan harbor's developing construction. As a result, under circumstances in which the country invested no money at all and with funds of HK\$100 million that were raised by shareholders, an output value of nearly HK\$200 million was produced in 2 years' time.

In the last 2 years Chiwan harbor has combined practicality with implementing bold reforms of the production management and cadre systems, the wage system and other aspects. For example, they established a system for production and capital construction management featuring an organization with few administrative levels, speedy transmission of information and swift decisionmaking, along with a better staff and simpler administration. The entire company has only 90-plus cadres, 93.3 percent of whom have more than a high school education, and the average age of the cadres is 38 years. The company implemented a comprehensive management responsibility system and set up two offices and three units under it: the office in charge of general management, the general engineering office, the harbor affairs unit, the public utilities unit and the financial affairs unit. These reforms created favorable conditions for accelerating the harbor construction and increasing the economic benefits.

12895

CSO: 4006/300

CONSTRUCTION

GUANGZHOU ZONE CONSTRUCTION IN FULL SWING

OW200927 Beijing XINHUA in English 0722 GMT 20 Mar 85

[Text] Guangzhou, 20 March (XINHUA)--Infrastructural construction and preparations for building factories are now in full swing in the Guangzhou Economic and Technological Development Zone, say local authorities.

The zone covers 9.6 square kilometers at the confluence of the Zhujiang and Dongjiang rivers, 35 kilometers from Guangzhou City Center.

Ground was broken last year after the state council decided to open Guangzhou to Hong Kong, Macao and foreign investors along with 13 other coastal cities.

With eight 10,000-ton berths having a combined annual cargo handling capacity of 16 million tons, the zone is 98 nautical miles from Hong Kong, on the Guangzhou-Shenzhen railroad and highway and near the planned new Guangzhou-Shenzhen and Guangzhou-Zhuhai highways.

The zone will be divided into six sub-zones according to function and is planned as a modern, landscaped urban area to attract foreign capital, advanced technology and information and train technical and managerial personnel.

Land is being leveled at the 2.6-square-kilometer first-phase construction, scheduled for completion by the end of May.

Construction of industrial, science and technology, information and electronics buildings are to begin in the second half of this year.

The opening has attracted representatives of over 300 firms from the United States, Japan, Britain, Singapore, Canada, France, Switzerland, Federal Germany, Australia, Belgium, New Zealand, Thailand, Hong Kong and Macao.

Sixty-seven letters of intent, agreements and contracts have been concluded, involving a total investment of 107 million U.S. dollars and 50 million yuan.

Over 20 liaison companies have set up to seek foreign investment. City officials say regulations on taxes, technological imports, land management, labor, wages and business registration are being worked out to protect the interests of foreign investors.

CSO: 4020/154-F

15 April 1985

CONSTRUCTION

BRIEFS

STEEL MILL FURNACE--Zhao Ziyang, who is premier of the State Council and very interested in our nation's current largest, 180-ton top-to-bottom complex blast furnace, put it into operation today at Anshan's third steel mill and smelted the first heat of steel. On the occasion of the imminent arrival of 1985, the large numbers of workers and staff at the Anshan Steel Mill reported success in turn to the Party Central Committee and the State Council. Constructing this large-scale furnace was a priority project of the Anshan Steel Mill's Sixth 5-Year plan that was approved by the State Council. On 9 July of this year, Premier Zhao Ziyang came in person to inspect and also gave specific instructions regarding problems in the reforms of the Anshan steel enterprise. He greatly inspired and urged on the 10,000 workers participating in the construction of this large-scale furnace to repeatedly advance the time limit for the project and require only a year's time to construct it and put it into operation with the highest quality workmanship. This amply demonstrated the great fearless spirit of the Anshan steelworkers. The overall design of this large-scale modernized furnace was undertaken by the Anshan Steel Mill Design Institute. All of the mechanical facilities were undertaken by the Anshan Steel Mill Machine Manufacturing Co. The entire installation project was by contract with the Third Metallurgical Construction Co of the Metallurgy Department. This large-scale furnace adopted the 1980's new technology, new crafts and new equipment. It uses microcomputers to automatically control calling up the materials, blowing oxygen and turning out steel. This large-scale furnace smelts one heat of steel every 44 seconds and products 1.8 million tons of steel a year. Its construction and operation will enable the Anshan Steel Mill's yearly output to reach more than 7 million tons in one leap, and will make a tremendous contribution to the nation's economic construction. /By Zhou Congsong /6650 0654 2646/ / /Text/ /Beijing GONGREN RIBAO in Chinese 30 Dec 84 p 1/ 12895

LIAONING'S DANDONG CONSTRUCTION PROGRAM--Since being listed as an open city, Liaoning Province's Dandong has made rapid progress in the construction of all projects for opening to outside areas. The construction of Dandong Harbor is going on in accordance with the construction plan. The preparatory work for the reconstruction of the Dandong and Langtou port areas is in full swing. The Dandong civil aviation airport, built in cooperation with the PLA units, will be opened in the near future. [Summary] [Shenyang LIAONING RIBAO in Chinese 1 Mar 85 p 1 SK]

XINJIANG HOTEL WORK BEGINS--Urumqi, 21 March (XINHUA)--Work has begun on a specially-cooled Uygur-style hotel in northwest China's Turpan Depression, the hottest and driest place in China. Turpan, 154 meters below sea level in Xinjiang, has an average temperature of above 40 degrees centigrade for over a month each year and is known as the "land of fire". It attracted 70,000 tourists, many from Japan, the Federal Germany and U.S. last year. The 10,500-square-meter hotel will open this summer, according to local tourist officials. It will have a five-story, 250-bed main guesthouse and a two-story, 50-bed annex with a reception hall, a bar and three dining rooms. A sprinkled garden will form the roof, and the central 5-meter-diameter pool will have guitar- and gourd-shaped rockeries. A 30- by 12-meter grapevine pergola between the guesthouse and dining rooms will serve as an outdoor concert area. The foyer will be frescoed with Uygur girls holding grapes. The depression is famous for grapes and watermelons. Arcaded walkways will connect the buildings, whose windows will immitate the air vents in local raisin-drying houses. Green will dominate the decor, and pines, cyresses, flowers and grass will be planted, officials said. [Text] [Beijing XINHUA in English 0133 GMT 21 Mar 85]

CSO: 4020/154

DOMESTIC TRADE

PROBLEMS IN REFORM OF DISTRIBUTION OF MEANS OF PRODUCTION

Beijing CAIMAO JINGJI /FINANCE AND TRADE ECONOMICS/ in Chinese No 12, 11 Dec 84
pp 22-26

/Article by Gao Bo /7559 0590/: "Exploring Some Problems in Reforming Our System of Circulation of the Means of Production"/

/Text/ The current system of managing the circulation of our means of production must be reformed; without reform, it cannot meet the needs of our vigorous economic development. Let us now explore a few problems concerning the reform of our system of circulating the means of production.

I. Can the Means of Production, Circulating Within Our System of Ownership by the Whole People, Be Considered Commodities Under the Present Chinese Conditions of Socialist Planned Economy?

Since the Third Plenum, our theorists have much pondered this question, and most have adopted a negative attitude toward Stalin's viewpoint that the means of production in a system of public ownership are not commodities. However, there are also those who hold that the exchanges of means of production within a system of public ownership are not transferring property rights, therefore cannot be commodities.

In actual working conditions it frequently happens that items which held in abundance are sold off as commodities and those that are scarce are transferred as products. The main purpose of our studying a reform of the system of managing our means of production is to solve the problem of exchange relations within the system of public ownership. If we cannot obtain an explanation on the theoretical level of the question whether the means of production in the system of public ownership are commodities, we would not know where to begin in the reform of the system. I endorse the view that the means of production in public ownership are also commodities, because the means of production in public ownership have all been produced by live and materialized labor and all have value and use value. All enterprises in public ownership must practice economic accounting, must create wealth for the state, must turn in taxes, the labor of their staff and workers must be compensated and all must continuously engage in simple and extended reproduction. All this must be measured, and the measure for it is value. Whether the purchase of raw and other materials or fuel is concerned or the marketing of products, all constitute acts of exchange. These

exchanges must take place at equal value; they are both in reality and in name commodity exchanges. Only if conducted within the scope of the state's general and specific policies on the part of production as well as on the part of demand, and only if they conform to the economic interests of both sides, can they lead to quick and effective development and can macroeconomic effectiveness be raised. Although product allotments in the past were carried out in accordance with the state plan, we have for a long time had such phenomena as goods being produced that did not meet requirements, production and demand being disjointed, circulation being stagnant and macroeconomic effectiveness being at a low level. We have to admit that this was a kind of punishment for our "noncommodity" method of exchange. Starting out from this viewpoint, I believe the reform of our system of circulating the means of production must realistically and comprehensively regard the means of production as commodities, must deal with them according to the laws of commodity circulation, so as to meet the requirements of our construction of socialism with Chinese characteristics.

II. In Organizing the Circulation of the Means of Production, Must We Mainly Rely on Allocations and Distributions or Mainly on Exchange at Equal Value?

The circulation of our means of production, ever since the institution of a planned economy in the early years of our government, was mainly carried out according to materials distribution plans and allotted prices as transfers of actual materials. Experiences of several score years has proven that this system cannot bring about a state of smooth circulation of goods and maximal utilization of materials. For a long time we had overstocking of goods at the same time as shortages of goods. Means of production with a value of several billions had to be sold at cut prices or discarded as some of the consequences of this system. Between 1979 and 1981, during the period of readjustment of our national economy, supply and demand in certain important uniformly distributed materials was mitigated and the distribution system ceased to play its role. As the materials departments stopped distribution and ceased procurements, the enterprises themselves were forced to seek some way out in order to survive. There was no distribution plan to arrange marketing and no allotment norms for procurements, and even motorcars, for which demand had for a long time exceeded supply, had for a time to rely on their own marketing arrangements. Enterprises that for a long time had been accustomed to manufacture for the benefit of the distribution plan now began to pay attention to producing according to what was in demand. Enterprises that had relied on the manufacture of popular goods and had flourished on exclusive sales monopolies were forced to get down from their high horses, had to acquaint themselves with market conditions, increase their assortments and improve the quality of their products. In exchange, a new trend of negotiating prices on the basis of quality began to appear for a time and a valuable buyer's market came into being for certain products. However, in 1982, when many capital construction projects were started and materials were again getting scarce, the system of distribution and allotments again took to the stage. The methods of circulating certain means of production as commodities, which for a time had been flexible, were in some instances restricted in their application and in some instances existed in name but not in reality. This very short practice of only 1 or 2 years is evidence that the system of distribution and allotment is quite capable of being reformed.

What is to be the direction of the reform? I believe it must implement exchanges of equal value under the uniform plan of the state and according to the law of value. Only by implementing exchanges of equal value, will it be possible to have rational economic accounting on both the supply and the demand side, only then will there be mutual interaction, only then will there be mutual promotion and joint improvement of our macroeconomic effectiveness. Of course, a change of this nature has certain prerequisites, such as the reform of the system of plan, enterprise and price management, etc.; these prerequisites must be gradually fulfilled within the reform of the entire economic system.

III. What Kind of Plan For the Overall Balance of the Means of Production Is Required in the National Economic Plan?

The plan for the development of the national economy under the system of socialist planned economy, whether a medium-term, long-term or annual plan, must in every case emphasize overall balance; a plan without an overall balance amounts to having no plan, and the overall balance of material resources is again the material foundation of the national economic plan. A plan for the overall balance of the means of production is, therefore, an important organic part of the medium- and long-term plans as well as of annual plans, and a high degree of importance must be attached to it. The question is what kind of plan for the overall balance of the means of production is to be compiled: is it to be a plan for the overall social balance of total supply and total demand, or a plan limited to the overall balance of the means of production for the sector of unified distribution? For several decades it has been the latter, and there was nothing of the former kind. There was, therefore, only an overall balance of the means of production of unified distribution and no overall balance of the means of production of society. In the materials distribution plans, too, for a long time the principle was to ensure the key points and give consideration to the general, so that the needs of what was regarded as the light industry market, rural needs and the needs of a considerable part of industrial maintenance and repair were shortchanged and did not get what was due to them. Although repeated emphasis was declared for support of agriculture, ensuring markets, giving some "priorities" to the needs of light industry for the guarantee of maintenance and repairs etc., due to the fact any measures taken were makeshift measures adopted under the condition of imbalance, there was no radical solution of the problem and as a result there was even more and more discrimination in these respects. In the supply of the means of production within this "general" sphere, how many people have wasted their energies in soliciting help and establishing relationships, how much did travel expenses increase, how many cost prices were unjustifiably raised, how many unhealthy practices were bred? The fundamental reason was that there was no effective action taken with regard to the overall balance of the means of production in society. The planning of the overall balance of means of production in society requires not only the balancing of materials but also, more importantly, the balancing of values, both are indispensable. Establishing a value balance of the social means of production also requires a number of conditions, especially price conditions. Following the reform of the system of enterprise management and of the pricing system, the gradual establishment and perfection of a value balance of the means of production of society is of great significance if we want to promote the reform of the system of managing the circulation of the means of production and if we want to perfect the system of socialist planned economy.

IV. How Can We Truly Guarantee Key Construction Projects?

One apprehension in our studies of reforming the system of managing the circulation of means of production is the fear that the reform may adversely affect the guaranteed completion of our key construction projects. This apprehension has grown from the current system of centralization and is the concern that the reform may weaken centralization and create a dispersal of manpower and material resources, thus adversely affecting key construction projects.

Guaranteeing key construction projects is an important policy for speeding up the development of our national economy. If we do not first of all guarantee the key points, this may have an adverse effect on our expanded reproduction and may also prevent us from preparing the logistics for the vigorous economic development of the coming decade. The problem that we must study is how we can truly guarantee our key construction projects. For a true guarantee we must first of all provide the various materials that are needed in our key engineering projects and that have to be supplied complete in all parts. How are we to arrange for the materials required by our key engineering projects? Are they to be arranged under the total social balance of supply and demand or under conditions of imbalance. We must effectively balance supply and demand before approval is given for a project. Otherwise, the project will be all set up, while materials cannot be supplied; one will then be compelled to select a key point within a key project and partly guarantee and partly delay the completion. This kind of a guarantee can teach us a lesson. Practical experience tells us that under conditions of imbalance of social supplies and demands, it is impossible to guarantee key construction projects. Only when a foundation is effectively provided by the total balance of social supplies and requirements, and only if there is a comparatively adaptable system of managing the circulation of the means of production, can there be a true guarantee for the completion of key construction projects.

V. When the Supply-demand Situation of the Means of Production Is Tense, How Can We Open Up Sources, Reduce Outflow and Speed Up Circulation?

It happens frequently that in the course of developing the national economy, a tense supply-demand situation arises as regards the means of production. This is not a phenomenon peculiar to the planned economy, but it occurs often in all kinds of socioeconomic formations. Under the capitalist system this phenomenon is spontaneously resolved by relying on the law of value. Under the system of socialist planned economy the question of what countermeasures could be taken is another important problem that has to be studied in the course of our reform of our system of circulation. It has been our customary practice for many years that the more tense the materials situation became, the more centralized and unified controls were imposed on the material resources. On some specific problems, this could indeed bring quick results. However, in view of the overall situation of the circulation of the means of production, it frequently resulted in many serious consequences. First of all, it created an artificial psychology of anxiety. Looking at the unit that is in need of the material, the shorter the material gets the more it would increase its demands, and there would unavoidably be much false exaggeration in the quantities it would demand. Looking at the unit that could supply the material, as it sees any increase in its production being allocated and transferred away, its enthusiasm would be

dampened, so that it would not endeavor to produce more, and may even short-report its resources, holding some back in a defensive attitude, so that the shortage of the material would be further aggravated. A further serious consequence would be that the material in short supply would be held up in some link of the circulation, the material in short supply is generally an item great in demand, distributed by way of certain cooperative agreements. Once you get your hands on it, you can use it as a means of bartering, so that it happened that the material which was obtained in large quantities, as allegedly needed, would be used as a means of bartering, which artificially aggravated the situation of short supply of material that should have been promptly moved to be consumed in production.

In many years of practice, an important question has evolved: In a situation of material shortages, what policy should be employed to truly open up resources, reduce outflow and speed up circulation? Could we not consider changing the administrative method that is akin to "killing the goose that lays the golden eggs" by planned guidance and by a method of promotional guidance that integrates planned guidance with economic methods; could we not change unified distribution and centralized allocation by methods of opening up and enlivening, so as to encourage the expansion of resources, control consumption, stimulate enthusiasm in all quarters and promote an accelerated circulation and rational use of materials.

VI. Is It Better To Have More or Fewer Channels for Circulation of the Means of Production? Should They Be Managed by One Single Unit or by All?

In recent years many great changes have taken place in the system of circulating consumer goods as well as agricultural and sideline products. Under the prerequisite of the leading role of state-operated commerce, many circulation channels have been opened up for them, a fact which had an important influence on bringing prosperity to urban and rural markets and on enlivening the circulation of commodities. How are we then to handle the channels for the circulation of the means of production? Although many reforms have been instituted in recent years, such as setting up trade markets in some cities, the practice of contracting for bulk supplies, etc., there are many characteristic differences between the means of production and consumer goods. Consumer goods are mainly the means of subsistence of individuals, their buyers are mainly individuals, while the means of production are mainly consumed in production (including capital construction), and for the most part circulated and exchanged within the state-operated enterprises. They are much more susceptible to planning than consumer goods and their shortages are much more serious in nature than those of consumer goods. Based on these special characteristics, how are we to consider the reform of their circulation channels? Would it be better to have more or to have less of them? the circulation of the means of production, even though different from the circulation of consumer goods, will still have to actively implement the principle of having many channels and few links. What fields should be included in the many channels for the circulation of the means of production? Could we not consider including the following: 1) the materials circulation departments; 2) the commercial departments; 3) the production departments and production enterprises (including units in collective ownership--so also in the following); 4) bilateral or multilateral combinations of

production departments, commercial departments as well as market town and rural supply and marketing cooperatives. Highly specialized departments, such as of the defense and war industry, railways, petroleum, post and telecommunications, should establish special marketing and supply networks. For certain fittings and tools, contractual management by collectives or individuals could be developed. For sundry materials and parts used in repairs, it may also be considered to allow collectives or individuals to handle these as and when they contract for maintenance and repairs. Certain trade activities, such as dismantling, re-equipping, refurbishing and recycling, could also be left to be contracted for by collectives and individuals. In short, all measures should be employed that contribute to the smooth circulation of goods and full utilization of materials.

Is the circulation of the means of production best administered by one comprehensive department or rather separately by the various departments in charge of the various branches of production? That is a question that has been debated for a long time. Managing the circulation of the means of production is in actual fact undertaking organizational work that amounts to a part of social production. Social production is conducted by several hundred thousand enterprises; to have one or several departments direct their production, supplies and marketing cannot be done easily and smoothly. Can we, therefore, not consider going the way of joint action and coordination? Let us organize a joint administrative organ for the reform of the system of circulating the means of production, the primary constituent to be the comprehensive departments from central to local (mainly economic core cities) authorities (the top-ranking central authorities to be the State Planning Commission, the State Economic System, the Economic Research Center of the State Council). This joint organ to be also participated in by all departments and research units concerned and by learned societies. They should all jointly study the problems arising from the reform of the said system and coordinate arrangements regarding the comparatively large problems of contradictions of supply and demand. On the specific work of supplying and marketing, the enterprises should themselves get together under the guidance of the unified state plan. Following the creation of economic key cities and the development of the reform of the enterprise management system, it should be furthermore considered to establish in appropriate form an organ for the management of circulation of the means of production.

VII. What Shall Be the Overall Layout for the Circulation Network of the Means of Production?

Currently existing organs that manage activities concerning the means of production are sometimes vertical (established according to departments) and sometimes horizontal (established according to territories). In some cities several outfits, vertical and horizontal, exist together, with organs overlapping and duplication of spheres of activities. They would vie with each other for goods that sell well and would shift responsibility for slow selling items to others. To change this situation, we may consider during our reform to completely break down the barriers of the vertically and horizontally organized authorities and establish, with the cities as core elements (not in their administrative jurisdictional relations), circulation networks for the means of production, such as trade centers, trade warehouses, various kinds of specialized and

comprehensive corporations trading in means of production. These networks, apart from establishing their branch organs within the radius of cities, can extend to other cities and their spheres, which would help launch competition and guard against becoming blocked up. The circulation network outlets in the key cities are enterprise units that operate independently, assuming full responsibility for their own profits and losses, directly guided by the economic control departments of the cities. To facilitate interchange of experiences and coordination and cooperation within the same trades, it may be considered to organize unions, societies and scholarly societies within trades as voluntary and loosely organized groups for the study of technologies and to serve as assistants to the departments in charge of economic administration in the cities. At ports, harbors and hubs of communications, scientific and highly effective directional control systems should be established to ensure handling capacity for import and export cargoes and smooth onshipment of transit cargoes.

VIII. Should Administration and Business Operation (by Government, by Enterprises) of the Means of Production Be Separated or Combined?

The present organizational form of having administration and business operations (by government, by enterprises) of the means of production combined is the transitional form from the past purely administrative control to forms of trade operations. This form has played an important role in promoting the shift from purely administrative control to business operations by enterprises, but it has also revealed many defects. The main defects are the custom of allowing government administration to take the place of the enterprises with adverse effects on the independent business operations of the enterprises; the use of power to gain advantages, using administrative powers in support of subordinate enterprises at their level to encroach upon the economic interests of lower level economic units, with adverse effects on the solidarity within the system and the spread of unhealthy practices. To overcome these defects, it seems the best would be to completely separate administrative controls from business operations. After such separation, there can be a clear and more definite division of labor between administrative control and business operations, each side to bear its specific responsibilities. The administrative control departments should concentrate on effective planning, determination of policy, laws, regulations and rules, also on investigations and research and should sum up and exchange experiences. The business units are responsible for market research, opening up sources of commodities, expanding marketing and effective business activities, such as protection, storage and postsale servicing.

IX. In Our Handling of the Means of Production as Commodities, Do We Have to Create Conditions for the Establishment of a Certain Measure of a Buyer's Market?

China's supply and demand situation regarding the means of production has been very tense for long periods of time, apart from a slight relaxation during the short temporary period of economic readjustment. On the demand side, all that had to be done was to constantly and humbly request; there was no right to choose. All products, regardless of quality or suitability, did not have to worry about marketing. Losses due to goods being found useless, being stockpiled and found of inferior quality ran into billions of yuan every year. This

condition brought it about that product mix was never increased and that the quality of products was never improved, which was most detrimental to the development of the national economy. I believe we must in future create conditions that the supply-demand situation be appropriately mitigated and that a certain measure of a buyer's market be created. The demand side must have room for selection, and there must be pressure on enterprises that produce inferior products that they will not be able to go on unless they increase assortments and improve quality. Do we have the ability to create these conditions? The answer is in the affirmative. If we only give attention at any time and anywhere to the three major balances, namely of materials, finance and credits, start out from the country's strength in arranging the national economic plan and leave some leeway, the tense supply-demand situation as regards the means of production can be mitigated and a buyer's market of a certain extent can be created. The national economy will then also progress at a steady pace, and the actual living standard of the people will be gradually raised. The development of the national economy in an orderly way and step by step seems at first glance to be slow but actually it will, on the contrary, be able to advance faster. If we proceed in this manner as from the Seventh 5-Year Plan on, we will be able not only to fulfill our tasks of quadrupling our output value by the year 2000, but may possibly even exceed that goal and will then certainly be able to realize a comparatively comfortable standard of living for our 1 billion people.

X. How Can We Promote Close Relations Between Supply and Demand?

Establishing close relations between the supply of and the demand for means of production (including relations between circulation enterprises) is the foundation of socialist planned economy, as it is also an important condition for the promotion of an integration of production with demand, for greater economic effectiveness of circulation and for greater macroeconomic effectiveness. By now certain connections have already been established between certain supply and demand enterprises, such as fixed cooperation, fixing quantities of supplies, the signing of supply contracts at order-booking meetings, etc. However, these relations can only be established within the scope of the unified distribution quotas. If there are no distribution quotas, or if there are quotas but the supply unit is changed by the time the order-booking meeting is arranged, the original supply-demand relationship will then have been broken off, to the detriment of both parties. Is it possible in the course of reforming the circulation system for the means of production to eliminate the drawback and to establish comparatively stable relations of supply and demand between the two parties? The crucial point here is the question of whether the current materials distribution system can be reformed. For a long time, people have regarded the materials distribution plan as an important organic component of the system of planned economy. Whoever negated the materials distribution plan was guilty of destroying the system of planned economy. Practice has proved that the materials distribution plan is one method of distribution adopted under conditions of shortages of materials, and it is not to be placed on a par with the system of planned economy. When during 1980 and 1981 certain materials were circulating without having been allocated through distribution, the existence of the system of planned economy was not at all negated. We must explore reform measures and find methods of planned arrangement of material resources that are better than the system of materials distribution.

As we have said before, if the socialist planned economy can effectively achieve the "three major balances," and create a certain measure of a buyer's market, there is no need to engage in cumbersome materials distribution. What method could be used instead of the distribution system? We may consider the following: The annual production plans of the enterprises shall be drawn up according to medium- and long-term state plans and based on a well-arranged supply and demand relation. It shall then be submitted to the State Planning Commission for examination and verification. As long as it conforms to the medium- and long-term plan policies, it shall be approved and placed on record, to serve as reference for later evaluation. The raw and other materials required for production will then be arranged by the enterprises themselves according to the above-mentioned production plans, reported to the higher level department for their record, and need not pass through materials distribution procedures. In this way, the enterprises would have the initiative in arranging supplies and marketing, which would change the state of passiveness of having to await allocation of raw materials and of having the products await their being allocated and transferred. As to materials needed for capital construction projects, considerations have to precede the approval of the construction project as to whether it is possible to supply the materials, and only when this has been confirmed should the project be approved. Banks should allocate investment funds according to the plan that was approved by the state, according to the progress of the work and according to what orders have been placed for equipment. For materials needed for any construction project, the unit that has contracted for the work may, according to the progress of the work and according to actual needs, directly sign supply contracts with the supplying party (including production enterprises and enterprises dealing in means of production) and also need not go through distribution and allocation procedures. As to ensuring the order of priority for key projects, the state shall indicate its demand to the lower departments concerned, and the departments concerned shall supervise and check implementation and execution.

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DOMESTIC TRADE

IMPROVEMENT OF ECONOMIC CONSULTING SERVICES STRESSED

Wuchang WUHAN DAXUE XUEBAO [WUHAN UNIVERSITY JOURNAL] in Chinese No 4,
28 July 84 pp 7-12

[Article by Hu Chunfang [3170 2504 5364]: "Strengthen Economic Consulting,
Improve Economic Results"]

[Text] Premier Zhao Ziyang pointed out in the "Report on the Sixth 5-Year Plan": "The organizational structure of China's enterprises at the present time is extremely irrational and economic management is backward. This is a major problem that is currently obstructing the improvement of economic results and is also a problem that has been building up for a long time and has become extremely difficult to solve." At the National Economic Work Conference held by the State Council in February of this year, Comrade Lu Dong [0712 2639], vice chairman of the State Economic Commission, made an important speech and asked all the people of the nation to strive to initiate a new situation to improve economic results. It is clear that China's urgent task is to strengthen scientific research and use of economic management, to continually raise the planned level of management of the entire national economy and the level of the management and administration of enterprises and institutions. In order to realize this goal, we must strive to strengthen economic consulting work and help improve our economic results. This has immediate significance.

I. The Necessity of Engaging in Economic Consulting

The meaning of consulting is to make inquiries and to ask for advice or consultation. In foreign countries, it is an industry that specially applies to all types of special knowledge and technical measures that are provided to factories, mines, enterprises and institutions, and these businesses are called various names such as "brain trusts," "think tanks" and "consulting companies."

Consulting is a type of intelligence business and is developing in the course of the world's advanced industrial modernization. The development has been especially rapid since the end of World War II. All nations that are currently economically developed have established consulting organizations and consulting enterprises. According to statistics, at the present time the United States has more than 3,500 consulting

enterprises, Great Britain has more than 2,000, West Germany more than 2,000, France more than 1,000 and Japan has more than 250. The scope of consulting services extends to many different aspects, such as politics, economics, military affairs, science and technology and management. Research topics include macroscopic, strategic, long-term and comprehensive as well as microscopic, tactical, near-term and individual events. Consulting services are extremely active in the realm of economics, and they are excruciatingly detailed in consulting on the management and administration of factories, mines and enterprises. Consulting services companies have already become one of the technology-intensive and knowledge-intensive industries in the world today.

For the past few years in China's consulting service work, including economic consulting service work, technical and economic service departments have been created along with the development of the undertaking of socialist modernization and construction. In each area and each department, China has already established a group of enterprise-oriented consulting service organizations. Up until the end of 1981, China had already established 98 consulting organizations in 22 provinces and municipalities. In the past 2 years there has been a new development. The State Economic Commission has also established a joint organization that is unified toward foreign countries--the China International Engineering Consulting Corporation. Recently, Shanghai's Jiaotong University also established a consulting organization for serving foreign nations, and other systems also have similar situations. The vigorous rise of technical and economic consulting organizations has already become a tangible accomplishment in the improvement of China's economic results. Through their diagnostic consulting of the Beijing Cloth Shoe Factory, the Anhui Knitting Mill, the Wuhan Washing Machine Plant and other enterprises, these consulting organizations have caused great changes to occur in the appearances of these enterprises.

Socialist economic consulting is different in nature from capitalist economic consulting which serves the exploiting class. Socialist economic consulting work develops on the basis of the public ownership of the means of production and under the guidance of the national plan, and it serves the socialist economy. By using all the special knowledge at their disposal, these consulting organizations serve other units and enable them to attain their anticipated goals and achieve the very best economic results. This is the goal of socialist economic consulting.

In implementing their planned economic management systems, why must socialist nations also initiate socialist economic consulting work? Because:

First, the party has shifted its emphasis on work. Since the Third Plenum of the 11th CPC Central Committee determined that the party's key work was to be shifted to the undertaking of socialist modernization and construction, the 12th CPC Congress has also put forward a new situation

for initiating socialist modernization and construction. It has also resolved to strive to make the country realize the glorious goal of quadrupling gross annual industrial and agricultural output by the end of the century under the premise of enhancing economic results. In order to realize the party's key tasks and comprehensive goals, new construction projects and imported technology for S&T research topics, the technical transformation of enterprises, the opening up of newly rising industrial zones and opening up to the outside world must come in succession one after the other. In socialist modernization and economic construction, in order to avoid the mistakes of policy decisions and raise socialist macroeconomic and microeconomic results, we must give full play to the knowledge and ability of scientists, technical workers and economists, offer advice and strengthen economic consulting service work. This is all extremely important.

Second, we have summarized more than 30 years of experience in socialist construction. For a long time past, in treating large and medium capital construction projects, leaders usually concentrated on drawing up plans for the economic management of factories, mines, enterprises and institutions but did not pay attention to carrying out a technical and economic demonstration before the fact. We only stressed investment in capital construction and did not stress economic results; we only stressed technology and production and did not stress scientific management; and we only squared political accounts and did not square economic accounts. We did not respect science, did not abide by economic laws and did not do business according to a system of regulations. This created numerous mistakes in our policymaking and planning work, and the losses suffered in the undertaking of economic construction were great. In order to meet the needs of developing the cause of China's socialist economic construction, realize the party's current comprehensive goals and tasks, strengthen the management of economic planning and avoid losses in economic management work, we must pay attention to technical and economic consulting service work in all engineering and construction projects, technological transformations, developing new products, importing technology and equipment, exploiting resources, management and administration, etc., and we must formulate it under a system, thus helping to realize macroeconomic and microeconomic results.

Third, the special characteristics of economic consulting work: for a long time, China had implemented the principle and method of central planning and management. In the past few years, China has restructured its economic management system and has implemented the policy of opening up to the outside world and stimulating the domestic economy. In its economic management, China has also used economic levers, legal measures, scientific methods, computer technology, an economic contract system, etc., and at the same time has developed economic consulting service work. In China this is regarded as a new method for managing the economy. The use of the method of economic consulting service is absolutely necessary for improving China's economic management and enhancing economic results, and this is because this service possesses a few special characteristics of its own:

First, economic consulting is objective. Economic consulting units or individual consultants stand in the middle of the road, are not restrained by administrative departments, can say what is on their minds, consult by seeking the truth from facts, dare to put forth constructive ideas and play an advisory role.

Second, consultants have the special traits of being of a high quality and knowledgeable in many disciplines. They are proficient in every type of business, are able to fuse together special knowledge in the natural sciences, social sciences as well as peripheral subjects that intersect many different fields and can specially compile information at a fairly high academic level. They pay attention to assimilating the newest scientific results from China and abroad, probe deep to research problems and can make feasible and specialized suggestions.

Third, consultants have vast connections and experience. They have extensive connections with scientific research organizations, information institutes, government policy units, comprehensive departments for economic planning and statistics, banking organizations, economic forecasting centers as well as individual learned societies. They can establish cooperations that cut across banks, departments and regions. They coordinate guidance between older and middle-aged specialists with abundant experience. They can use all of their abundant experience and judgment on any problem involving a significant economic policy decision, on any economic business, from the beginning to the end, including every stage of development, no matter what type of unforeseen problem arises, no matter what type of new situation occurs and no matter how it is to be resolved, and they put forward consulting suggestions and so serve their clients.

Fourth, not only do consultants have specialized knowledge and abundant experience but they have also collected abundant data and have a good grasp of large amounts of information and intelligence. They contribute to an understanding of the entire picture, to the greatest extent possible reduce the factors of unreliability and inaccuracy, avoid blindness and one-sidedness, cause policies and plans to be accurate, implement effective measures, attain anticipated goals and achieve the best possible economic results.

Fifth, the transfer of the intelligence of consultants has the advantage of using little money, using a short amount of time and yielding good economic results. During the early Meiji period in Japan, they used gold to attract consultants from advanced countries, purchased foreign financial power, fairly quickly seized the advanced technology of other countries, studied the experience of managing an economy and caused their own productive forces to achieve rapid development. Carrying out the transfer of technological, economic, management and scientific results, borrowing advanced scientific, technical and management methods from foreign countries, integrating our actual situation in economic management and using and developing this is an important way for us to achieve economic results.

In China's economic management work, the importance and special characteristics of developing economic consulting work at the present time is not yet completely understood by the Chinese people, to the point where there is a misunderstanding. Some people feel that China is a socialist nation and that the method of economic consulting work is Western and should not be adopted by China. Some people feel that by inviting consultants we will be replacing full-time economic managers. They do not understand that economic consultants spend a limited amount of time on each job and cannot replace full-time economic managers. The tasks of consultants also only deal with one aspect of management work, and consultants do not participate in the entire work and process of economic management. If consultants are able to complete their tasks on time, they will not again participate in the work. If the clients rely on the consultants, they will cause the consulting plan to exist in name only, economic results will be unable to improve and the consulting plan will also lose its practicality. Some people feel that the results of consulting work will certainly appear within a short time. In fact, this is not so; some economic results can appear within a short period of time; some consulting plans are invisible, and results can only be seen after we promote the plan for a long time, continue to implement the consulting concept and do not discontinue it. There are also people who because they have an insufficient understanding of consulting work cannot cause their departments, from the leadership to the workers, to give sufficient support to the work of consultants, to the point that they have uncooperative attitudes, or they are looking for trouble or they are taking the blame for the work for which they are responsible and placing it on the consultants and making it impossible for consultants to do their jobs. We must not allow this kind of attitude to exist. It is detrimental to developing economic consulting work and is even more harmful to improving our management and administration.

II. Correctly Develop Economic Consulting Work

China is a country of socialist public ownership. Socialist nations that develop consulting work, especially economic consulting work, under the leadership of party and government departments at the same level, must support the four fundamental principles, abide by the country's laws and regulations, implement state economic policies, carry out the theory of socialist planned economic management, strengthen socialist cooperation, jointly fulfill agreements, have mutual trust and jointly strive to develop our economic consulting service work in order to realize the best possible economic results.

Currently, China's development of economic consulting work can be divided into roughly five categories: first is comprehensive consulting; second is specialized consulting; third is S&T consulting; fourth is engineering and construction consulting; and fifth is management and administration consulting. With regard to the content of management and administration consulting, in essence there is the following range: first are the goals and strategies of enterprise management; second is market management

strategy and the development of new products; third is the installation of managing organizations and the establishment of all types of management systems; fourth is improving the management and administration of enterprises, readjusting the arrangement within factories, improving the technological process, reducing consumption in the production process, lowering costs, giving products reasonable prices, raising productivity and raising profits; fifth is market sales forecasting; sixth is strengthening financial management and the control of costs; seventh is the training of personnel; and eighth is the management of stock. Currently, management and administration consulting is the most prevalent type of economic consulting work being developed, and the economic results achieved have been remarkable. In receiving management and administration consulting for only a little more than a year, last year, the Wuhan Washing Machine Plant produced more than 140,000 washing machines and earned 1.22 million yuan in profits, a 1.7-fold increase compared with the year before. Through consulting, this factory turned its losses into profits and was consolidated, checked and qualified five times. The Wuhan Economic Committee publicized the management and administration consulting experiences of this factory throughout the city, and the State Council Commission on Reform of the System also published a bulletin.

In order to correctly develop economic consulting work, ensure the quality of consulting work and assume responsibility for mistakes in consulting work, any unit that initiates consulting work must establish and perfect the organizations involved in consulting service work and strictly select the specialized personnel engaged in consulting work. Consulting organizations must register with the relevant departments. Important personnel involved in consulting must hold high-level professional titles above the rank of engineer, assistant researcher, lecturer, economist and accountant, and specialized personnel with considerable experience must hold these posts. Only in this way can we do a competent job at socialist economic consulting service work.

Procedures for consulting work: every type of work in economic consulting service must abide by the following procedures:

First are preliminary talks; both the customer and consumer should discuss consulting work and the application of the client is accepted or refused. The customer should understand the consultant's service projects and decide to allow the consultant to consult. The consultant can then decide to accept this type of consulting work, carry out a preliminary diagnosis and inspection, put forward a preliminary tentative plan and negotiate an overall understanding with the client. This is a good preparation for the next step in the procedures.

Second, both sides sign an agreement. The contents of the agreement must include the guiding ideology and goals of the consulting, the scope and projects, the deadline of the consulting service, the consulting service

costs as well as the methods used to calculate and pay for them, and the signing representatives and supervisory bodies from both sides, etc.

Third, the regulations of both sides for implementing the contract: there is a strict sense of discipline and law in signing and executing a contract, and a contract is a type of legal action. If both sides promise to undertake the contract and have already signed it, then they must both strictly abide by it, scrupulously keep their word, do their duty, and no one side should in any way be allowed to change or revoke the contract. If the contract cannot be carried out due to natural disaster or other reasons beyond the control of the work force, both sides can negotiate and resolve the problem and relieve themselves of economic responsibility.

Fourth is the problem of signing provisions in the contract, and this is a prerequisite for complying with the regulations of state laws and economic policies. When executing a contract, both sides must take equal initiative to establish relations with each other. The client must have a contact that takes the initiative to help the consultant, introduce the situation to him, provide data and give sufficient funds. The consultant must work vigorously, investigate and research, analyze the problem, make a diagnosis and suggestions and come up with a plan to solve the problem. There can be several consulting plans, but only one of these plans can be selected and implemented, and arrangements should be made to implement the steps, time, specific methods and measures of the plan. The consultant must help the client train the management personnel to implement the consulting plan, and in the course of implementing the plan, both sides can also adjust their provisions and make the consulting suggestions even more perfect and correct.

Fifth, when the consulting process is over, we must still investigate the results from implementing the consulting contract, put forward a summary report, appraise the economic results gained and acknowledge the S&T results and the economic results.

In the economic consulting work of socialist nations, consultants and clients each have their own standards.

Consultants must complete the tasks of their consulting service, allow the clients to have wholehearted faith, and then they must abide by their own work standards.

First, under the premise of not hindering their own work, consultants must have as specialized knowledge as possible, ardently serve the clients, discuss with the clients all matters, big and small, give play to their own knowledge, strive to consult and thus guard against any disputes occurring after the fact.

Second, the interests of the client must be foremost, responsibilities must be clearly defined and matters should not be treated lightly. Consultants must understand and consider the entire interests and long-term interests of the clients and guard against only giving attention to understanding immediate problems and leaving behind endless trouble for the future. Consultants must handle matters impartially and should not be biased in any way.

Third, not only must the service goals of consultants solve the clients' problems in economic management and introduce and apply knowledge on management duties, but they must also allow the clients to give play to their own capabilities and master an understanding of the theories and methods of economic management.

Fourth, consulting work must uphold the spirit of seeking the truth from facts, and the proposed plans must both correspond to reality and be implementable. Consultants must guard against plans that contain empty clauses that do not reflect these characteristics.

Fifth, consultants must have an outstanding sense of responsibility and uphold their own reputation and professional honor. They should only accept consulting work that they are capable of performing, and in no way should they attempt to undertake arduous tasks that exceed their own capabilities.

Sixth, when consultants are consulting two enterprises that are competing with each other, they must ask for approval from these clients.

Seventh, when the consulting work makes it necessary that the consultant use data from the different economic situations of the clients, they must strictly adhere to secrecy, and they must not cite the information openly if they do not have the consent of the client beforehand. In this way they can avoid the occurrence of any unfavorable factor.

Eighth, consultants must treat their clients as equals. In no way should they arbitrarily criticize others, and they must not interfere in the internal work of the clients that has nothing to do with economic matters, such as changes in personnel and other problems.

Ninth, before consultants start to work, they must make sure that the clients are aware of the goals of the service, the scope, the standards for collecting fees, etc. In no way can they charge other fees because they popularized new equipment or new technology. The fees must be written in the contract so as to prevent a demand for high compensation after the fact.

Tenth, when consultants earnestly engage in essential consulting work for other parties, it is not suitable for them to use new technical patents, and if they use them, they must have the consent of the other party and must pay the patent fee.

Eleventh, consulting work is extremely independent, and if the client without cause or reason does not implement the consulting analysis or suggested plan, then the consultant has the authority not to be responsible for the consequences.

The departments and individuals of the clients, in order to have good relations with the consultants, must maintain mutual respect and establish regular cooperative relations. Thus, clients must also abide by the following work standards.

First, clients must accurately choose a consultant according to the needs of their own goals.

Second, they must recognize the independence of the consultant's work and the consultant's neutral function, and they must express their trust and support of the consultant.

Third, the clients have a duty to provide the consultants with all necessary economic data and every type of information.

Fourth, clients must earnestly study the reports and advice proposed by the consultants and must implement them, and if they seem to listen but do not listen, then they cannot place any of the responsibility for the consequences on the consultant.

Fifth, clients must place the consultants as third in importance; no matter what relationship a client establishes with a department or what instructions are given by a higher department, the client cannot ignore the suggestions and ideas of the consultants.

Sixth, according to the stipulations in the contract, the clients must give the consultants reasonable and adequate compensation for their services.

Seventh, the consultant's fees should be stipulated in a clause in the contract beforehand. The standards and limits for calculating the consulting fees usually include: 1) direct personnel expenses, including wages, bonuses, additional allowances and compensation for expenses incurred while traveling on business; 2) indirect expenses; 3) technical expenses; and 4) indirect outlays. China's Ministry of Finance's Science Agreement has already stipulated these expenses in explicit terms. As for methods for calculating consulting fees, foreign countries generally have the following six methods: 1) per diem; 2) an estimate; 3) direct personnel expenses calculated by multiplying the indirect expenses by a certain percentage and adding them to the direct expenses; 4) an estimate and a percentage of the actual expenses paid; 5) a fixed package defrayal; and 6) an employment expense.

The relationship between client and consultant must be correctly handled. The relationship between clients and consultants in socialist countries is neither a relationship between higher authorities and subordinates nor a relationship between similar businesses, but is a mutually cooperative work relationship between two different departments that are acting according to a contract. Each side exercises its own rights and performs its own duties according to the contract, and their goals are identical. Under the prerequisite of enhancing economic results, they both want to improve the backward situation of management, actively develop productivity and promote an early realization of glorious goals. Thus, clients and consultants must pay attention to the following few points in order to correctly handle their work relationship.

First, clients must take the initiative to help consultants, clearly state their economic problems as much as possible, introduce the different symptoms in their economic management and help the consultants smoothly and effectively start work. Based on their findings, consultants can investigate and research the results and raise an appropriate diagnostic suggestion.

Second, consultants must understand the successes and failures in their work, that it is closely linked to the interests of the clients. Clients and consultants must cooperate with each other, support each other, actively participate in the work, remain aware of each other's situation and ensure that the consulting proposals are realized.

Third, the client must assign a leader to act as a contact who will maintain relations with the consultant and guard against any obstacles standing in the way of the consultant's work and that would prevent the consultant from starting work; or guard against any obstacles that would occur when the consultant is collecting data and information; or guard against providing inaccurate data and information that would result in passive consulting work.

Fourth, clients must guard against isolationism occurring in the consultant's work. Clients must give ardent support and provide them with timely information and feedback.

Fifth, the clients must make demands and appeals to the leaders and entire body of workers in their own departments. Everyone should help the consultant's work, be mutually trusting, closely cooperate, guard against suspicion and dissatisfaction and take strict precautions against malicious slander.

In short, clients must seize the opportunity, effectively utilize the special role of consultants, quickly change the backward situation of their management and administration, raise the level of modern economic management and create bountiful and good material and spiritual wealth for the state, the collective and individuals. Giving play to the special

role of economic consultants is an extremely effective supplementary method for improving economic management and must be vigorously promoted.

III. Strengthening Our Economic Consulting Work

The State Economic Commission clearly stipulated in "An Outline of China's Economic and Technical Development Plan" published in April 1981: "Scientific research units must provide results for production units, develop consulting service and accept the tasks of clients. Scientific research units and production units can use a contract system, and some can even form a scientific research-production integrated body." That is to say that in the past, China has not paid enough attention to economic consulting service work, and after the Third Plenum of the 11th CPC Central Committee, it was stipulated in explicit terms that starting to recognize consulting service work is an important policy for developing S&T, promoting production and realizing socialist construction. Economic consulting service will play an even greater future role in improving economic management and enhancing economic results. We must cause economic consulting work to become an important management method in our economic management work and must broadly popularize and use it. This requires that we adopt effective measures and solve the problems facing us in our economic consulting work.

First, we must publicize the nature and role of economic consulting work, enhance people's understanding of the importance of this work and consciously use this work in enterprise management.

Second, we must summarize our good past experiences in starting economic consulting work and actively spread this experience. At the same time, on the basis of summarizing experience, we must draw up consulting laws and regulations, formulate relevant policies that are even more specific, have regulations that are easy for both sides to abide by, guard against wrangling, gradually break through administrative boundaries between regions and between departments and clear up the internal relations of economic channels.

Third, we must establish economic consulting service companies or enterprises, give play to their strong coordinating effect of being able to act according to the circumstances and strengthen and expand the horizontal systematic relations between economic consulting organizations.

Fourth, we must strengthen the construction of economic consulting service departments themselves: a) we must replenish personnel; b) we must solve the problem of the source of funds, and funds can be provided by state subsidies, can come from joint investment or can be contributed by individuals; and c) we must increase computer information technology equipment, buy more books and reference materials and promptly collect information from home and abroad.

Fifth, we must establish a consulting speciality in institutes of higher learning, enroll graduate students, train a knowledgeable basic contingent for the state that has a diverse and deep range of knowledge and that suits the needs of developing consulting work.

Sixth, we must be proficient in foreign languages, and it is important to improve our training of the ability to read, write and speak foreign languages. We can thereby develop foreign consulting business and enter the international market.

Seventh, we must strive to spread the professional ethics and standards of economic consulting professionals, and the independence and special role of the profession itself makes each consultant become a fully qualified worker.

In short, with the development of the undertaking of China's four modernizations, socialist consulting business must develop in a big way. It is imperative that China strengthen its consulting work, and the future is boundless.

12437

CSO: 4006/215

DOMESTIC TRADE

STRONGER TIES FORGED BETWEEN CITIES, COUNTRYSIDE

OW122040 Beijing XINHUA in English 1610 GMT 12 Mar 85

[Text] Wuhan, 12 Mar (XINHUA)--Suburban villages that used to supply only food to cities are now finding it more profitable to diversify into other lines of business, according to a national symposium here.

Economic links between cities and the countryside were clogged by the traditional production model and rigid administrative management in the past, participants were told.

Encouraged by new flexible policies, a growing number of peasants in Handan City, Hebei Province, northern China, are opening hotels and cinemas, and running other service trades.

Peasants in the city earned 54,700,000 yuan last year from service trades.

Thanks to service trades, the average per capita income in Donggaohe, a formerly poor mountain village in Handan County, came to 2,000 yuan last year--nearly 4.8 times the national average.

There are now also more than 200 factories run jointly by the city and rural areas.

Generally, urban enterprises provide equipment, energy and technology while the rural side offers labor and land.

Handan city authorities have sent more than 700 technicians to help 40,000 specialized households in the suburbs.

The city information center, which has contacts with 18 provinces, municipalities, and autonomous regions, provides peasants with further economic and technical help.

Changzhou, Chongqing, and Shenyang also reported at the symposium that closer economic ties had been established between urban and rural areas.

CSO: 4020/149

DOMESTIC TRADE

MORE TRADEMARKS REGISTERED IN CHINA IN 1984

OW121449 Beijing XINHUA in English 1251 GMT 12 Mar 85

[Text] Beijing, 12 Mar (XINHUA)—Last year, 29,564 applications to register trademarks were received by the State Industry and Commerce Administration's trademark office.

This was 42 percent more than in 1983. Domestic applications were up 39 percent with 26,487, and applications from abroad rose 82 percent to 3,077.

China passed its first trademark law on 1 March, 1983 to cope with its rapidly developing commodity production and marketing. Individual businesses applied for the first time last year, where for the previous 30 years only state and collective enterprises had bothered to register.

Consciousness of the benefits of legal protection has also spread from the economically more developed east to the developing northwest.

The largest increase last year was for foodstuffs and building materials, and the largest single item was liquor, with 2,655 applications, home electrical appliances, cigarettes, pharmaceuticals and cosmetics were also significantly up.

Americans registered 486 trademarks in China last year, Japanese, who now have more trademarks registered in China than any other country, 394 and Britons, French and Federal Germans about 100 each.

At the end of last year, 105,388 trademarks had been registered, with 16,944 from 35 other countries and regions.

CSO: 4020/149

DOMESTIC TRADE

TIANJIN TELEVISION FACTORY LINKS UP WITH VARIOUS REGIONS

Tianjin TIANJIN RIBAO in Chinese 24 Nov 84 p 1

[Text] Yesterday, the Tianjin Television Factory has signed special agreements on repairs with 46 units in 20 provinces and municipalities, signed agreements on establishing marketing with 146 units, and employed 280 special marketing personnel. Under the situation of a popular sales of television sets, this is the factory's means of strengthening information collection in order to promote quality improvement.

In recent years, the Great Wall Brand and Tianjin Brand television sets produced by the Tianjin Television Factory have been very popular. The output for the first 10 months of this year was up by 32 percent compared to the corresponding period last year. Sales immediately follow production. The factory did not have overnight stock. A few days ago, vigilant in the midst of the popular sales of its products, the factory invited the coordinating factories which were producing parts and components and some customers to come together and exchange information in order to promote quality improvement. In addition, to protect the interest of the consumer, the factory decided to set up special repairs points. These special repairs points were asked to carry out free repairs according to stipulated criteria of the television sets which were under warranty, to not take more than 10 days in repairs, and to provide a temporary set for the customer should repairs take more than 10 days.

9335

CSO: 4006/274

DOMESTIC TRADE

BRIEFS

JILIN SUPPLY-MARKETING ACHIEVEMENTS—In 1984, the supply and marketing cooperatives throughout Jilin Province made marked progress in improving commercial systems to promote commodity production. There were 2.65 million farming households throughout the province who became stockholders of the supply and marketing cooperatives, accounting for 84.1 percent of all farm households. At the end of 1984, the money paid for shares by the cooperatives' stockholders at the grassroots levels accounted for 40.1 percent of the total circulating funds. All of this has promoted rapid progress in their business. In 1984, these supply and marketing cooperatives throughout the province scored a 14.4-percent increase over the 1983 figure in gross volume of commodities, and a 44.9-percent increase over the 1983 figure in taxes and profits handed over to the state. They reduced their number of cooperatives suffering losses by 60 percent and their deficits by 42 percent. [Excerpts] [Changchun Jilin Provincial Service in Mandarin 1030 GMT 3 Mar 85 SK]

CSO: 4006/454

FOREIGN TRADE AND INVESTMENT

DIFFERENT CONCEPTS OF IMPORTANT EQUIPMENT, TECHNOLOGY DISCUSSED

Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 4,
Jul-Aug 84 pp 26-28

[Article by Ge Hui [2047 6540] of Policy Research Office of Ministry of Machine-Building Industry: "Difference in Concept of Importing Equipment and Technology of Manufacturing Equipment and Its Impact on Economic Construction"]

[Text] For a long time, some articles and documents have often called importing equipment also as importing technology. This is not only a wrong choice of words but also reflects a kind of guiding principle which should be speedily clarified since it has encouraged numerous undesirable effects on our economic construction.

Importing equipment and importing the technology of manufacturing equipment are two different concepts in foreign trade that cannot be lumped together since they are distinctly different although closely related. The difference between them finds expression in the differences on substance and function. Importing equipment, be it a single machine or a complete set of equipment, means purchasing of material goods to be used as means of production to satisfy the needs of expanding productive capabilities, renewal of equipment and improving the technical makeup of equipment, such as importing automobiles, machine tools and power generating equipment. Importing technology of manufacturing equipment is the purchase of a knowledge system with technology as the substance by means of commodity exchange. It includes primarily technological data, technological standards, documents on technological process, and a series of technical secrets of success and methods of organization and management for solving the problems of know-how and know-why in producing certain products.

The other difference is intrade characteristics. Importing equipment is a general material form and feature in international exchange of commodities, and the exchange of commodities in its original sense. The buying and selling of both sides come to an end as soon as the exchange is consummated. As to technical service, and supply of parts and fittings that come later, this will be the new feature of exchange. The form of exchange is also comparatively simple. Importing the technology of manufacturing equipment is a special exchange of commodities with both the buyers and sellers maintaining economic and technical contracts for a long period of time. Both sides will still maintain a certain economic and technical contact for a period of time until after the technology is transformed into productive forces and products are produced.

In a certain sense, the objectives of both sides toward digesting and mastering technology and raising economic results are identical. The form of exchange is also varied, such as trade with special technical permits, technical consultation, cooperative designing and cooperative production.

Importing equipment is related to importing technology. Importing equipment, especially importing complete sets of equipment, also brings in methods of use and maintenance of the equipment and technological process, all of which should also be included in the scope of technology. In importing technology, it is also necessary to purchase certain key technological process, measuring and testing equipment. However, this relationship does not illustrate in any way that importing equipment and importing the technology of manufacturing equipment are one and the same. Because here lies a question of relationship between principal and subordinate. In importing equipment, the purchase of the means of production is taken as the dominant factor. The technology of use and maintenance and technological process, on the other hand, are brought in as accessories to the equipment without providing the technology of manufacturing the equipment. In importing the technology of manufacturing equipment, those key items of imported technological process measuring and testing equipment, are in the service of digesting and mastering technology, thereby becoming the substance of importing technology.

Precisely for this reason, documents of all countries and other international documents about statistics on importing technology have not included the import of equipment. The world trade in technology has developed rapidly since World War II especially since the 1970's, and the early 1980's, the annual volume of world trade on technology had exceeded \$16 billion.

Because importing equipment is lumped together with importing the technology of manufacturing equipment, it has ended up creating a false impression as if by importing equipment, technology is also imported, thus acquiring the secrets of success and methods of designing and manufacturing equipment. Due to the existence of this kind of false impression, the problem of importing equipment and rejecting the import of technology has cropped up. According to statistics, the total volume of transactions by major departments in our country in importing equipment in 1978 came to \$7.8 billion of which equipment in complete sets accounted for \$6.4 billion. But the technology of manufacturing equipment imported by departments of the First Ministry of Machine Industry amounted only to \$7 million, less than one-one thousandth. While the volume of imports of equipment in complete sets between 1979 and 1982 throughout the country came to \$5.4 billion, the technology of manufacturing equipment imported by departments of the Ministry of Machine-Building amounted to only \$130 million, less than 3 percent. If things continue this way, it will have serious consequences on the four modernizations.

First, it will be harmful to the development of the capabilities of self-reliance in our country. Looking at the import of equipment from a short-term point of view, due to material wear and tear and loss of vitality, this equipment will eventually go through the aging process. In order that the technical level of enterprises can hold the appropriate advanced position, more advanced equipment has to be imported once again. It is possible for

individual enterprises to do so, but as far as the whole country is concerned, if the technical level is to be raised by relying on repeating the import of equipment, it will lead to dependence on foreign countries, thereby making it impossible to enhance our own capabilities of self-reliance. For example, in the early 1970's, our country imported 13 large chemical fertilizer equipment units in complete sets which played a positive role in changing the backward state of our country's chemical fertilizer industry. However, because we did not import the technology of manufacturing the equipment at the same time, we failed to master the designing and manufacturing of the imported equipment in complete sets and had to import the same type of equipment again after several years.

In importing the technology of manufacturing equipment, it is necessary to proceed from the principle of applicability to the advanced, aim at the world's advanced level from a higher starting point, master the designing and the technology of manufacturing of foreign equipment and manufacture machinery and equipment needed at home and make foreign things serve China and turn them into things of our own. By so doing, we will play the important role of basically changing our technically backward state and truly raise the capabilities of self-reliance in our country. To purchase a scheme of modernization or active modernization through self-reliance is an important demarcation line. In 1980, our country imported from the United States the technology of designing and manufacturing a 306,000 kW thermal power generating set and engaged in cooperative production with China itself producing 50 percent of the first set, about 70 percent of the second set and over 80 percent of the third set. In this way, although some foreign exchange is spent in digesting the imported technology, on the one hand, and steeling our own technical forces, on the other hand, time can be gained and skill mastered. It is expected that by the year 2000, most of the large thermal power generating sets of over 100 billion kW needed nationwide can be produced domestically on our own.

Japan had also imported equipment in complete sets, but since the 1950's, it has clearly laid stress on importing the technology of manufacturing. According to incomplete statistics, Japan spent more than \$10 billion from 1950 to 1979 in importing 33,850 technological items, of which about half were technology of manufacturing machinery and electrical equipment. To gain the strong points of various countries and digest, improve and develop them, Japan has relied on importing new technology to manufacture equipment itself thereby promoting economic development at high speed.

Second, it will be detrimental to the development of the domestic machine-building industry. Generally speaking, importing the essential equipment will help supply each other's needs, on the one hand, and conserve the social labor at home by making full use of the international market, on the other hand. But here arises a question of the limit of quantity and also a question of approach that varies at different periods. The so-called limit of quantity refers to whether emphasis should be placed on domestic production or import from abroad with regard to the technology and equipment needed by various sectors of the national economy; the so-called varying approach at different periods refers to the need to concretely analyze and handle problems according to the different periods of economic and technical development at home.

Handling this matter well will give impetus to the development of the domestic machine-building industry, otherwise, it will hamper the development of the domestic machine-building industry.

During the early period of the founding of new China, it was necessary to import factory equipment in complete sets for laying the national economic foundation as soon as possible. During the First 5-Year Plan, we imported 156 items of factory equipment in complete sets from the Soviet Union and the Eastern European countries, such a move was of extremely vital significance in rapidly building the foundation for our country's industry. To this date, these factories still remain the backbone force of our four modernizations drive.

After over 30 years of construction, our country's machine-building industry has been provided with productive capabilities of considerable scale forming an S&T force. Over 80 percent of the technical equipment in various sectors of the national economy is provided by the domestic machine-building industry. The present situation is greatly different from that during the early period of the founding of new China, conditions for providing technical equipment for the four modernizations by the domestic machine-building industry are now ready. In other words, it is possible to change the course of economic construction by importing equipment as was the case during the early period of the founding of new China, especially that which stresses importing equipment in complete sets.

But, it should be noted that compared with the industrially developed countries, our country's machine-building industry still remains in a relatively backward state insofar as product quality, variety and level and economic results go. Under these circumstances, the tendency for the consumer department to want to import equipment from abroad will be inevitable. If the state is not going to institute the necessary restrictive policies, large quantities of foreign equipment will certainly pour into the country through different channels and different ways to make an impact on the domestic machine-building industry. The results will be: 1) The domestic machine-building industry will be deprived of a chance to improve and steel itself. Most of the important technological developments and technological breakthroughs in the history of the machine-building industry in our country were achieved out of pressing necessity. Typical examples were the 12,000-ton hydraulic press designed and manufactured by China itself during the early 1960's and the "nine major pieces of equipment" that came later. 2) The capabilities of the domestic machine-building industry will be idled. Since the machine-building industry occupies an extremely important position in the national economy, it is quite obvious that idling of the productive capabilities of the machine-building industry will have an effect on the development of the national economy with an impact on the machine-building industry and a more serious impact on the entire national economy.

Third, it will be harmful to balancing imports and exports. A fundamental principle to develop our country's imports and exports in a planned manner is to "live within our own means." We have to know how much we can do with the amount of money in our pocket. Importing equipment in large quantities

certainly will run counter to this principle. We must remember and draw a lesson from unrealistic importing of equipment in disregard of the national resources, especially importing equipment in complete sets. In terms of a one-time investment, the amount spent for importing equipment is far greater than that for importing technology, since several times more foreign exchange than the original price of the equipment has to be spent over a long period of time for importing parts and fittings needed for the maintenance and repair of the equipment put into operation. At present, our country's export commodity mix is backward and because the export cost of many products is high, the export of these products is restricted by the state. In this circumstance, difficulties in developing exports on a large scale remain and foreign exchange earnings cannot be increased faster. The limited amount of foreign exchange must be used to insure first of all the import of grain, high-grade ores, rolled steel, lumber, paper pulp and other critically short resources and raw materials. Foreign exchange is bound to spread thin if equipment is imported in large quantities and many essential goods and materials that have to be imported are blocked, thereby affecting the state construction of key projects and the people's standard of living.

The above analysis shows that the state should encourage the import of technology and control the import of equipment, especially controlling the import of equipment in complete sets. At present, the industrially developed countries have all put up a set of tariff barriers and nontariff barriers, levied high import tariffs and adopted other measures to restrict the entry of commodities into their countries from abroad. It is a sign of progress that, to protect their national industry and commerce, many developing countries have, since the end of World War II, adopted tariff and nontariff protective measures. Our country has also put forth a number of protective policies in recent years but they are not too sound and the existing policies have not been implemented too strictly. This state of affairs must be changed.

It should also be pointed out that clarifying these concepts does not mean severing contacts and absolutely setting the import of equipment against the import of technology of manufacturing equipment, it means nevertheless the integration of the two even better to combine technology with trade and engage in cooperative designing and cooperative production. To be more specific, while importing equipment, it is also necessary to import the technology of manufacturing equipment. In this way, the import of equipment can be used as a bargaining chip to put the import of technology on a favorable position. While importing equipment on the basis of technology-trade integration, it is also necessary to engage in cooperative designing and cooperative production at the same time. At the beginning, the production of key spare parts and components will be undertaken overseas, whereas the production of spare parts and components in general will be undertaken domestically. After that, the proportion of things to be manufactured domestically will be increased step by step and in the end everything will be manufactured domestically. Facts have proved that this is an effective way to conserve foreign exchange, master technology and elevate the technological level of the domestic machine-building industry.

12662

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FOREIGN TRADE AND INVESTMENT

NEED FOR IMPROVING SHAANXI FOREIGN TRADE RESULTS DISCUSSED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 10, 27 Oct 84 pp 41-43

[Article by Yang Junyi [2799 0193 5030] and Wang Ying [3769 7336]: "Work Hard To Raise the Economic Results of Foreign Trade in Shaanxi Province"]

[Text] Since the Third Plenum of the 11th CPC Central Committee, foreign trade in Shaanxi Province has developed rather rapidly. In 1983, the gross value of export commodity procurement doubled that of 1978, and self-run export more than quadrupled. At the same time, local import businesses have been set up. In the last 5 years, the gross value of export commodities procured throughout the province amounted to over 2.63 billion yuan, increasing the income of local finances, industrial and mining enterprises and peasants by over 1 billion yuan. Utilizing the foreign exchange through profit retention which the Ministry of Foreign Economic Affairs and Trade distributed to our province, we have imported steel products, chemical fiber, textile equipment, machinery equipment, farm chemicals, medicines and scientific apparatuses. At the same time, the state has allocated for our province such materials as grain, cotton, edible sugar, chemical fiber and medicines, amounting to over \$600 million in foreign exchange. These have solved the problems of surplus productive ability and insufficient raw materials for some enterprises in the readjustment, eased the tension between supply and demand involving certain commodities in short supply on the market in our province, and rendered a definite contribution to improving the urban and rural people's standard of living and to developing industrial and agricultural production.

However, whether in terms of the speed of development or in terms of the scale of import and export, our province's foreign trade has lagged behind that of the whole country and our fraternal provinces and municipalities. In 1983, the gross value of export commodity procurement of our province only constituted 2.6 percent of the nation's total, and constituted 3.06 percent of the gross value of industrial and agricultural output in our province. Furthermore, in 1982, we incurred a deficit. The problem of raising the economic results of our province's foreign trade has already become an urgent topic for the foreign trade workers in our province. In light of our province's reality, the raising of the results of foreign economic affairs and trade requires that we strengthen work in the following aspects:

A. Bring Our Province's Superiority into Play and Work Hard To Develop New Export Products.

With the arrival of a new industrial revolution, a new leap will appear in the future social productive forces. Tremendous changes will take place in the industrial structure, energy structure, consumption structure and commodity structure of all countries. Profound changes will take place in the world economy and social life. Blazing new trails has become as extremely effective nonprice measure of competition that is popularly used on the international market in the present age. Thus, to vigorously develop new export products and speed up the upgrading and updating of traditional products have become urgent matters for our province in developing foreign trade and raising economic results.

Our province is situated in the eastern part of the northwest region of our motherland and along the middle reaches of the Huang He, with a wide north-south span and a complex geographical environment. Southern Shaanxi includes the Qinba mountainous region and the Hanzhong Basin. Through the central Shaanxi plain runs the "800-li Qin River." Northern Shaanxi is made up of a loess plateau and undulating mountains. We have abundant natural resources. Just the Qinba mountainous region alone has over 4,000 seed plants. We rank first in the country in the annual output of the central China yangtao. We also have animals rare in the world and wild animals which have a relatively high economic value. Our mining resources include gold, silver, iron, manganese, lead, molybdenum, petroleum, asbestos, barite, and marble. Our province ranks third in the country in coal deposits. Our province's planting and breeding undertakings are also relatively developed. Our pastures are among three largest in the country. We rank first in the country in the number of milk goats. We rank second to Nei Monggol in the output of cashmere. We also enjoy good ranking in the country in the output of grain, cotton and oil-bearing products. In terms of modern industry, our province has over 9,000 industrial enterprises at and above the county level, and these have formed a production capacity of considerable scale. We rank fourth in the country in fixed assets in the machine-building industry. We are one of the eight major bases in the country for textile industry. We also have a relatively rich foundation for other undertakings, such as war industry, light industry and food industry. We have a more or less complete list of sectors, which all occupy important positions compared to their counterparts throughout the country. We are especially endowed with rich tourist resources and are one of the four major tourist spots in the country. In spite of all that, we only have just over 300 export varieties in very small quantities, most of which are products of deficit. The gross value of annual procurement of machinery products in our province only totaled some 50 million yuan. Grain and oil-bearing products also totaled less than 20 million yuan, and mining products only totaled several million yuan. Textile products are the major export products of our province. The gross value of annual procurement constitutes over 60 percent of the gross value of export commodity procurement of our province. However, it constitutes less than 10 percent of the same type of products for the whole country. These materials show that our province not only should develop new export products but also has all the conditions to do so. We should proceed from the reality of our province, bring into full play

our province's superiority, develop new export commodities and expand our province's exports. For instance, in light of the relative abundance of our province's mining resources, we can vigorously develop the export of coal, cement, graphite, rare metals and their manufactured products. In light of the rich foundation of our province's machine-building industry, we can vigorously develop the export of electromechanical products. In light of the rich resources in agricultural, forestry, native and special products in our province, we can vigorously develop the export of native and special products and their manufactured products. In light of the superiority of the abundant cultural and historical relics and the exquisite traditional craftsmanship of our province, we can vigorously develop the export of arts and crafts which embody local characteristics, recreational articles, replicas of cultural relics and all kinds of tourist souvenirs and so forth. In order to encourage the entry of more industrial and agricultural products into the international market, while developing new products, we must support some small commodities which have a market on the international market, which have the conditions for production at home, which have good economic results and which have a future for development, and turn these products into major and core commodities. In this way, we will provide the sources for export goods which are rich and colorful and which are marketable.

B. Proceeding From Our Province's Reality, Actively Readjust the Structure of Export Commodities.

1. Increase the degree of processing of export products and strive to increase the export ratio of finished products.

In the production of finished products, we can adopt more quickly the latest S&T and continue to raise labor productivity. In addition, we can make full use of our existing equipment and absorb more labor force. Under the situation of not increasing or material consumption increasing it less, we can exchange for more income in foreign exchange for the state and attain higher economic results. In 1979 and 1980, Taiwan Province made \$965 million through importing timber, processing it and then exporting finished products. In 1981, Hong Kong also made \$400 million in profit through exporting finished products of all kinds of native and livestock products which it imported and processed.

With the progress in science and technology, the ratio of trade involving finished products in world trade will be further raised, while the ratio of products as raw materials will be further lowered. The developing countries will lose their superiority in exporting primary products. Thus, actively developing the export of finished products is not an expedient measure but a strategic measure of far-reaching significance.

2. Actively develop knowledge-intensive and technology-intensive products and raise the additional value of export products.

At present, our province's export commodities are primarily labor-intensive and resource-intensive products. This is in accordance with the reality of our province's labor and natural resources as well as our relatively backward science and technology. In the future period, although our export products will still be primarily labor- and resource-intensive products, yet, in the

long run, while consolidating and developing our labor-intensive products by continuously increasingly design, color and variety, and filling the gap on the international market, we should adopt the most effective measures to accelerate the equipment renewal and technological transformation of labor-intensive industries, such as textile industry, light industry and food industry, and enable these undertakings to develop high-grade, precision and advanced products. We should also emphasize in a planned manner and step by step the equipment renewal and technological transformation of the electro-mechanical industry and the heavy chemical industry, actively develop the export of technology- and knowledge-intensive electromechanical and heavy chemical products, in order to score even higher economic results.

C. Work Hard To Raise Product Quality and Strengthen the Competitiveness of Our Export Products.

Although many products in our province's export commodities are enjoying a definite reputation on the international market, yet, many products are unmarketable because of poor quality, obsolete style and monotonous design and color, and are forced to terminate export. In 1982, there were 13 varieties of export commodities in our province which were not exported due to poor quality and were marketed at home. A loss of some 1.3 million yuan due to cuts in prices was incurred. On numerous occasions, foreign businessmen asked for compensation because the quality of the export products was below standard. This not only brought about economic losses, but also affected the country's reputation.

There are many reasons that affect the quality of our province's export products. However, the primary reason is our backward technological equipment. For instance, in the machine-building industry, an analysis conducted by the departments in charge on 309 major products shows that 95 products belong to the technological level prior to the fifties. They constitute 31 percent of the total number of products. There are 195 products which belong to the fifties and early sixties. These constitute 63 percent. There are 19 products which belong to the seventies, and these constitute only 6 percent. Thus, although our province is an important base for machine-building industry throughout the country and ranks fourth in the country in terms of fixed assets for the machine-building industry, yet the gross value of export in 1983 only amounted to some \$2 million. Furthermore, the foreign exchange cost was rather high and the economic results rather poor. Thus, to raise the quality of our province's export products in order to obtain the best economic results, we must put our effort on new technology, new equipment, new techniques, new materials and superior varieties, and make an issue of the "reputation, superiority and newness" of the products.

At the same time, we should also conscientiously do a good job of bringing about technological progress and technological transformation of the enterprises and production bases (including export-specialized factories and workshops, and so on down the line) owned by the foreign trade organizations themselves. This is an important approach in raising the quality of export commodities under the present circumstances.

At present, the gross value of export commodities yielded by the enterprises and production bases owned by the foreign trade organizations themselves constitutes roughly 30 percent of the gross value of export commodity procurement of the whole province. With the development of foreign trade business, the enterprises and production bases owned by the foreign trade organizations themselves will be further expanded, and the proportion of the supply of goods they yield each year will be further raised. If we can seize the opportune moment and emphasize the technological transformation and promote the technological progress of these enterprises and bases, speed up the development of new products and the upgrading and updating of old products, and raise the product quality to the most advanced level of this age, then, we will extend even further the scale of our province's foreign trade and will bring about a relatively major breakthrough in our economic results.

D. Strengthen Market Investigation and Study and Raise the Ability of Export Products To Meet Emergencies.

In the last few years, we have remained in a passive position in foreign trade activities. Our reason is our lack of understanding of the situation on the international market. In our import and export business activities, we often judged the market based on correspondence with foreign businessmen. We did not know whether we could strike a deal with foreign businessmen. We were relatively uninformed in our effort to organize the sources of goods and to arrange for production. The adaptability of our products was rather poor.

How should we strengthen the work of market investigation and study?

First, we should further set up and perfect the market investigation and study organs at various levels, consolidate our personnel in investigation and study, organize a system of market research and management from the higher to the lower level. The tasks of the market research organs at various levels should be to: 1) Study and formulate the long- and short-term plans for the market research work in various areas, 2) formulate a program for implementing market research; 3) study and solve the problems that appear in market research; 4) assume responsibility for training market research personnel; 5) coordinate the implementation of market research programs for various areas; 6) handle the routine of market research in the various areas, and so forth.

Second, strengthen the establishment of a news research network.

In accordance with the spirit of the decision of the Ministry of Foreign Economic Affairs and Trade on strengthening the work of news research, we should quickly organize and establish a network of foreign trade information in our province. The various prefectures and cities should correspondingly set up foreign trade information research stations. Those counties (cities) which have the condition to do so should set up foreign trade information points. Then, we should gradually invite concerned units and institutions of higher learning to form independent market research centers in various areas.

Third, strengthen the building of a market research contingent.

Our greatest difficulty in strengthening market research is the lack of a competent cadre contingent in market research. How can we train and foster such a contingent? 1) We can take the foreign trade schools and institutions, financial and economic affairs schools and institutes and concerned institutions of higher learning as the bases, strengthen the fostering and training of market research personnel and basically solve the problem of the source of research personnel. 2) We must strengthen the professional training of in-service research personnel by means of all kinds of spare-time education in order to raise the professional standards of the in-service personnel. 3) We must make full use of such situations as the establishment of an information research network and the organization of academic exchanges to bring into play the role of the various trades and undertakings and institutions of higher learning in market research in order to supplement our inadequacy. 4) We should absorb in a selective manner some comrades who have retreated into the second line but who possess the ability in market research to take part in the work of market research, and organize a three-in-one market research contingent that is made up of "the regular army," "the local army" and "the guerrillas."

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FOREIGN TRADE AND INVESTMENT

XIAMEN INSURANCE COMPANY UNDERWRITES FOREIGN INVESTMENT RISKS

Fuzhou FUJIAN RIBAO in Chinese 25 Dec 84 p 2

[Article by Cai Yuqiang [5591 5148 1730]: "Upholding the Principle of 'Special Handling of Special Work,' Xiamen Insurance Company Offers Flexible Foreign Services; Amount of Insurance Doubles"]

[Text] This year, the Xiamen Municipal Insurance Company is actively engaged in foreign insurance by offering nearly 20 different services. The total amount of insurance has exceeded \$500 million, double that of last year.

Along with the development of Xiamen Special Economic Zone, foreign investors are in urgent need of some economic safeguards. Therefore, this company has introduced various classes of insurance and is ready to meet any requirement of foreign traders in accordance with the regulations of the international insurance market. If any necessary clause is not included in the policy, such clause will be worked out in the proper spirit to give full satisfaction. Jinqiao Hotel, a highrise jointly financed by Xiamen and Hong Kong investors, wanted to have four different classes of insurance, including insurance of construction project after acceptance of the bid, third-party liability, and employer's liability. However, since the services offered did not include any insurance after bidding (namely, insurance that the successful bidder will undertake the construction project), this company accordingly worked out the required clause so that all four requirements could be met and the construction of Jinqiao Hotel could be started quickly.

In handling foreign insurance, this company has also granted special premium rates which are generally lower than in other countries and much welcomed by customers. In July this year, the Xiamen Light-Sensitive Materials Company, Ltd signed a contract with Kodak Company of the United States for importing technology and equipment for a complete production line costing more than \$100 million. This insurance company granted a preferential premium rate and signed a policy for the goods ordered.

Since the company carefully honors its contractual obligations, the losses incurred by the insured units are always promptly compensated and their interests duly protected.

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FOREIGN TRADE AND INVESTMENT

FALSE EXPORTS DEFICIT ANALYZED

Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese
No 5, Sep-Oct 84 pp 15-20

[Article by Ye Xiangzhi [0673 4161 3112] and Xu Yunren [1776 0336 0086] of the Shanghai Municipal Financial Science Research Institute: "Further Discourse on the Question of a False Deficit in Foreign Trade Exports"]

[Text] The article entitled "Trial Discussion of the Question of 'False Deficit' in Foreign Trade Exports" (hereinafter called "Trial Discussion" for short) by comrades Xu Xuehan [1776 7185 1383] and Meng Xiangang [1322 2009 0474] published in the second issue of 1984 of CAIMAO JINGJI [ECONOMICS OF FINANCE AND TRADE] which has aroused general attention because of its manysided elaboration of viewpoints on the question of a false deficit in exports. Indeed, the deficit in foreign trade exports has now become a serious problem in economic work demanding prompt solution. Various measures should be taken to vigorously control and cut down the deficit in exports and conscientiously raise the economic results in exports. We comprehend profoundly the eager desire of these two writers. We fully endorse the methods of work in raising export results mentioned in "Trial Discussion" such as choosing fine-quality items for export and other opinions on improving foreign trade operations and management. However, our opinions are different on certain viewpoints and we would like to present them for discussion. We stand ready to be corrected for any mistakes we have made and welcome criticism.

I. The Origin of Export Deficits

After the transformation of private enterprises was completed in 1956, the import and export business of our country came under the unified operations of the state-operated import and export corporations. To ensure the basic stability of commodity prices in the country, the state has adopted a measure of pricing import and export commodities at par with commodities of the same categories and same quality at home. In purchasing export commodities, the foreign trade corporation will purchase them at producer prices whenever producer prices are set for the domestic market. The price paid by the foreign trade corporations for the purchase (which is also the producer price of domestic factories) plus the expenses involving

links in foreign trade export circulation become the cost of foreign trade exports. Thus, when the cost is lower than the selling price, the portion of difference becomes a profit in foreign trade, when the cost is higher than the selling price, the portion of difference represents a deficit in foreign trade. This way of calculating profit and loss is done (independently on the basis of circulation links.) For a foreign trade corporation, if a deficit ever occurs, there is only a difference between a high deficit and a low deficit, there is no difference between a genuine deficit and a false deficit. Profit and deficit brought about by fluctuations in the rate of exchange and international market prices are all to be assumed by foreign trade.

After the Third Plenum of the 11th CPC Central Committee, with the CPC Central Committee resolutely implementing the policy of opening to the outside world, great progress has been made in foreign trade and exports have also increased rapidly. In the meantime, the export commodity mix has undergone tremendous changes and the export of industrial products has also increased markedly. According to statistics, the export of industrial products in 1982 accounted for 55 percent of total export volume. The form of economic cooperation with foreign countries has also begun to diversify, developing from simple commodity trade to compensatory trade, processing materials (samples) supplied by customers, and leasing to many other forms including joint ventures with Chinese and foreign capital and wholly owned ventures by foreign businessmen. The principal economic and trade targets have shifted to the capitalist international market, particularly to the economically developed capitalist countries. Because the pricing system of our country is greatly different from the international pricing system, the pricing measures we have been using are very inadequate and have created numerous false impressions. For example, chemical fiber clothing and nylon stockings made from such imported raw materials as chemical fiber yard goods and nylon have brought about a false increase in cost because the imported raw materials were sold to the factories at the domestic allocation price which was much higher in percentage than the import cost, even twice as high. On the other hand, because the industrial tax and profit were computed on the basis of the false increase in cost, a higher export deficit resulted. Actually, if computed on the basis of the actual cost, the cost of chemical fiber clothing and nylon stockings would be comparatively low in terms of foreign exchange while the rate of exchange would be comparatively high. For this reason, profitable commodities that have become higher deficit commodities should be restricted and prohibited from export. Another example is that due to the very low energy price, the economic results of all products of potentially high energy consumption look comparatively good on the surface. Taking the export of iron alloy for instance, while its cost in terms of foreign exchange is very low from the standpoint of foreign trade, it is actually not as profitable as directly exporting the energy it consumed. These phenomena of a false deficit with genuine profit hidden beneath or a genuine deficit with false profit hidden have continued to

happen. We are truly sorry that the state has suffered losses because many comrades have not done their accounting correctly thereby leading to making wrong policy decisions and also to doing many foolish things. This has taught the people a lesson that in dealing with the export trade, one should not compute profit and loss in the circulation links alone but should also compute the actual domestic consumption in our country by combining production and circulation and compare it with the export foreign exchange earnings. If the earnings are higher than the expenditures, it means a false deficit; if the expenditures are higher than the earnings, then it means a genuine deficit. A false deficit signifies that this type of export trade can increase the wealth for the state, a genuine deficit, on the other hand, will bring losses to the state. In the meantime, we can also figure out how much tax and profit can be gained domestically from a false deficit in commodity exports and what type of commodities should be handled to give us more advantage. A genuine or false deficit, therefore, has become a sign and important basis of reference for measuring economic results in export trade.

In expounding the viewpoint that industrial production cost should not be used to measure profit and deficit in export, the article "Trial Discussion" held that using $C + V$ to measure the profit and deficit in export amounts to saying that enterprises producing export products can offset their expenditures with earnings, do not have to make contributions to society and can rely on the state support to maintain simple reproduction. We hold that this viewpoint is open to discussion because the computation of profit and deficit is derived from the comparison between earnings and cost. In export trade, earning is a form of transformation of international value--the international market price--and the cost means factory cost plus the expenses of circulation involving the export links, the difference between the two representing the genuine profit or deficit. Regardless of what price the foreign trade enterprises set in purchasing commodities from factories, this purchasing price representing the domestic value of commodities only affects the profit and deficit of the industries or foreign trade departments (enterprises) and cannot have any impact on the genuine profit or deficit. If the purchasing price is high, the factories will realize their commodity value totally in accordance with the formula $C + V + M$, however, as foreign trade suffers a deficit, the industry will gain M (or a part of M) and the same amount of deficit will also be increased in foreign trade; conversely, as the factories yield some profit, the industry will also cut their profit and thus losing M (or a part of M), so the same amount of deficit will also be reduced in foreign trade. (Of course, with price as an economic lever, it is still necessary to readjust the interests of the two.) Therefore, so long as we do not use the industrial production cost to measure the profit or deficit in export, profit or deficit will not be affected even if we cut the price subsequently in sales competition abroad. The multiple-port price cut in sales competition that emerged in export trade over the past 2 years was brought about by the transfer of the power of operation to a lower level at multiple ports but with the export deficit

still to be borne by the central financial authorities. It was also the result of the dislocation of responsibility, power and economic benefits and negligence in improving social economic results. This can be fully averted so long as we integrate management authority with the responsibility system. On the contrary, by integrating production with circulation and by checking over the social economic results comprehensively, we can take into consideration of supply and demand situation in both the domestic and overseas markets to selectively handle more profitable export operations in order to raise economic results. Thus, the process of developing from computing high or low deficits in the foreign trade circulation links to computing genuine or false deficits by integrating the production links with the circulation links represents the needs of developing economic and trade exchanges and also an advance in foreign trade accounting.

II. Why It Is Still Necessary To Export False-Deficit Commodities

The article "Trial Discussion" holds that since surplus value in capitalist society does not represent the actual consumption of capitalists and since what is required to be compensated is only the price of the means of production and the price of the labor forces used, the production cost therefore can be used for computing profit or deficit. On the other hand, "under socialist conditions, the surplus labor in commodity production finds expression principally in the form of tax and profit, and since this represents the workers' labor consumption, it should be realized in the course of exchange." The article also holds that processed products for export must bring about profit and tax revenue, otherwise, all departments, localities, enterprises and workers will not approve even if a genuine deficit is incurred. The analysis made by the article "Trial Discussion" in another paragraph is found to be self-contradictory: "Ours is a developing country, thus viewing the situation as a whole, because domestic value is higher than international value, some social labor may be lost in the process of exporting commodities; however, since the international value of the commodities purchased for import is lower than the domestic value, some social labor may be saved in the process of import. Therefore, to measure the economic results of our foreign trade in an all-round way, major import and export accounts must be computed in a unified manner." The analyses made in the foregoing two paragraphs contain two contradictory points: First, while the writers affirm that due to the comparatively low labor productivity in our country and the fact that the domestic value of processed products for export is higher than the international value, some social labor may be lost, they also advocated that processed products for export must bring about an equal amount of tax and profit from domestic sales. Second, while the writers affirm that to measure economic results in foreign trade, it is necessary to compute the major import and export accounts in a unified manner, they also advocate that import and export should be measured separately and that the level of profit made by export commodities should remain constant. We are of the opinion that the analysis made by the

article "Trial Discussion" about the loss of some social labor in exporting commodities is correct. Based on our own analysis, for some time to come, our country's processed products for export will not be able to realize their value totally, but it will still be appropriate to export false-deficit commodities.

The reason as to why export commodities, especially processed products, cannot realize domestic value is, therefore, a very complicated one. What is involved is the question of the rate of exchange, the pricing system, the operation and management of foreign trade enterprises and multiple ports sales competition. But the most fundamental reason is that there is a comparatively big gap between the S&T and management level of the processing industry in our country and the average level abroad; also labor productivity is comparatively low. Just as Marx pointed out in "Capital": The exchange of commodities between countries is not carried out according to the domestic [guobie 0948 0446] value of commodities but rather in line with the international commodity value--"the average unit of world labor." Therefore, whether or not the total domestic [guonei 0948 0355] value of commodities (C + V + M) can be fully realized internationally is determined by comparing the domestic [guobie] value with the international value of commodities, in other words, by comparing the labor consumption for commodities with the "average unit of world labor." If the former is equal to the latter, the domestic [guobie] value of commodities will be fully realized to the precise extent; if the former is smaller than the latter, the domestic [guobie] value not only can be realized fully but also can gain above-quota profit; conversely, if the former is larger than the latter, the domestic [guobie] value cannot be fully realized. Ours is a developing country, and because of our comparatively low labor productivity, the value of processed products for export cannot be fully realized and may lose some of the social labor, in other words, similar profit and tax revenue cannot be gained domestically. This also explains why foreign trade enterprises often incur deficits when they purchase industrial products based on domestic [guonei] value. It also explains why the more processing required by industrial products for export, the bigger the deficit often becomes. These are the objective realities that cannot be changed by men's subjective desire. Only by looking squarely at the current objective realities and drawing up ways and means for practically solving the export deficit in an overall manner can the gap be diminished with the rise of labor productivity and can the value of export commodities be fully realized in the end.

Then, why is it still appropriate to have to export processed products in spite of the fact that they cannot realize normal profit and tax revenue? (Note: what we have said here is appropriate, not the more the better.) This is because:

(1) We want to gain foreign exchange for importing certain quantities of essential goods and materials and technology.

(2) We want to acquire comparable benefits and make profit by computing the major import and export accounts in a unified way, profit gained when the amount of social labor saved from purchasing imported commodities is larger than the amount of social labor lost from exporting commodities.

(3) It is for coping with the needs of the strategy of economic development in our country. This point is well worth of our attention. Foreign trade is an important component of our country's national economy, thus the strategy of developing foreign trade must be compatible with the needs of the strategy of developing the national economy as a whole. Whether false-deficit commodities should be exported or not and how much should be exported should be probed into from the point of view of strategy for national economic development.

It is common knowledge that our country is comparatively backward economically and technologically and that its modernization and construction did not start from a high plane. The revolution of new technology in the world is both an opportunity and a challenge to us. The present situation is quite grim, if we grasp the opportunity, give full play to advantage, develop trade in a big way and import international advanced S&T to develop our economy, it is entirely possible for us to catch up with the international advanced level in a few decades; if we do not take advantage and lose the opportunity, it is inevitable that our gap with the advanced world level will be further widened and the conditions for export trade will further deteriorate. What are the advantages for us to develop the economy? Since our natural resources are relatively short and funds are deficient, our most salient advantage is the abundance in labor power. (In the meantime, it is also a tremendous pressure as far as employment is concerned.) We must follow the road allowing the coexistence of the three technological mix's--labor-intensive, capital-intensive and knowledge- and technology-intensive--take full advantage of the labor force, broadly and selectively develop the labor-intensive-type processing industries and earn foreign exchange through exports in order to bring along the development of a number of related industries at home. We must make use of the foreign exchange earned for importing large quantities of international advanced technologies, key equipment and essential raw materials and vigorously establish and develop capital-intensive-type, especially knowledge- and technology-intensive-type industries. In the meantime, we must, by means of our own technical transformation, continue to improve the quality of labor-intensive processed products and raise labor productivity so as to make them more competitive in the international market. By so doing, we can gradually realize the transformation of traditional industry to industry of new technology and in the end achieve modernization at the world's advanced level. By then, our processed products for export will not only realize their value fully but will also earn above-quota profits. This is our target of struggle which we must strive to attain quickly now and for some time in the future. At present, we can selectively and appropriately export false-deficit commodities of relatively good economic results so as to precisely create the necessary conditions for refraining from exporting false-deficit commodities any more from now on.

It should be noted that a serious tendency existed in foreign trade in the past which only stressed earning foreign exchange but neglecting economic results. This erroneous tendency of only paying attention to the role of foreign trade in transforming use value but neglecting the role of multiplying value had pushed the foreign trade deficit to such a state that it was beyond the capacity of state finance to bear. Yet, it is necessary at present to guard against going from one extreme to another and prevent the tendency of paying attention only to the role of multiplying value and neglecting the strategy for long-range development. If we do not look squarely at the current state of our country's industrial productive power and long-term interests of economic development and stop the export of items if they are false-deficit commodities, it is very likely that it will bring about a sharp decrease in foreign exchange earnings, and find ourselves incapable of importing large quantities of technology, goods and materials needed in modernization and construction. Furthermore, some of our factories will have to stop or reduce production, thus affecting financial revenue and causing a chain reaction in the national economy, and make us lose the precious opportunity. Undoubtedly, this is extremely harmful to economic development.

III. The Advantages of Calculating Genuine and False Deficits

There are four advantages in the actual work of figuring out the genuine and false deficit of export commodities.

1. It provides a correct basis for making export policy decisions. In exporting a batch of commodities, be it to our advantage or not, we should not only consider whether or not the foreign trade links will bring about a profit or a deficit or result in a higher or a lower deficit, especially now when the pricing system is not basically reformed. In the first place, since the price for mineral and agricultural products is low and only a small accumulation can be realized while the price for industrial products, on the other hand, is high and a bigger accumulation can be achieved in addition to the fact that its price is much closer to the international market price by comparison. It is, therefore, profitable to export mineral and agricultural products but not profitable to export processed productions from the sole standpoint of the links of foreign trade. However, the results often turn out exactly to the opposite if we look at the situation by integrating the production links with the circulation links. Actually, whether or not it is profitable to export raw materials, or processed primary products or meticulously processed products, this must be computed by taking into consideration the profit and deficit involved in the industrial links. Otherwise, it will be comparable to looking into a distorting mirror in which the real impression is distorted, resulting in making the wrong policy decision.

2. It will urge industrial departments to improve the industrial structure and product mix. Internationally, the market plays an enormous regulating role in production, with all manufacturers organizing production according

to the market demand, reforming their production in line with the change of market demand and even shifting investment funds to bring about a change in the industrial structure. In our country at present, the change in international value and demand and supply in the international market are reflected in the increase or decrease of profit or deficit in foreign trade; production and circulation are disjoined and even contradict with each other because the industrial enterprises cannot obtain information directly from the international market to guide production. For example, when the price of some commodities drops in the international market, the deficit in foreign trade will grow, but in spite of this situation, the industry making high profits and the factories producing these commodities in large quantities will still ask the foreign trade departments to increase exports; conversely, when the price of some commodities rises in the international market, which is to our advantage, the factories show no interest in increasing production because of the limited profit they can earn. By computing genuine and false deficits, we will be able to understand the real situation fully and adopt appropriate economic or administrative measures to organize unified regulation and improve the product mix and the industrial structure.

3. It is advantageous to develop businesses that use imports to support exports. Judging from the experience gained in economic development by some countries and regions in the world, the purpose of developing an export business is not only for earning foreign exchange needed in importing things but also for speeding up our own economic construction by taking advantage of the international market. There are many advantages in importing raw materials from abroad and processing them into finished products for export. In the international market, there is a certain price parity between raw materials and finished products which will remain unchanged whether or not the price for the allocated imported materials is set higher or lower than the export cost. Besides, the international market is fast changing. Thus it is imperative to know the data on cost well in order to support exports with imports. Not only do we have to figure out how much is to be gained from a certain transaction, we must at times also have to figure out how much can we save from fixed expenses in completing a transaction. This can only be accomplished by integrating production with circulation in calculation.

4. It helps reduce financial subsidies and raise economic results. Boiling down the above-mentioned three points, we can raise economic results, reduce the foreign trade deficit somewhat, increase industrial taxes and profits somewhat, promote industrial production somewhat and avoid ineffective labor somewhat. In the final analysis, all this will result in improving economic results in the entire society and certainly increase financial revenue. Conversely, if we do not give consideration to basically raising economic results but only expect foreign trade to cut down the export deficit and at the same time allow foreign trade to adopt the measure of forcing prices down in purchase, there is no advantage to raising social economic results because on the surface it looks as if

high deficits have been reduced to low deficits and low deficits have been reduced to zero deficits but in actuality this amounts to shifting the profit between industry and trade.

IV. Further Perfecting the Methods of Computation And Raising the Level of Accounting And Economic Results in Export Trade

We have elaborated above the necessity of computing the profit and deficit of export commodities, especially processed products by integrating production links with circulation links. However, because industry and foreign trade do not belong to any one sector and the contradictions in the domestic pricing system are numerous, it is not too easy to compute genuine and false deficits effectively and the methods of computation now being used are far from being perfect in many respects. For example, industrial production is often a continuous and mutually coordinating process and the computation of genuine and false deficits involves whether or not the computation should apply to the final products or trace back to preceding coordination parts, spare parts and components and how to include into the cost the financial subsidies provided by the state to such livelihood necessities as grain and edible oil and so forth. We must steadily improve computation methods in the light of existing questions and gradually perfect them so that they can provide important and accurate information for operating the export business and further raise accounting proficiency and economic results. To this end, we have a few ideas:

1. It is essential to have a rate of exchange that can reflect the true price parity.

The rate of exchange should be a ratio of exchange between the domestic value and the international value of a country's import and export commodities. Its rise or fall should reflect the ratio change between these two values. The rate of exchange in our country, however, cannot reflect this kind of ratio relationship. It is understood that in 1983 when the average selling price of the export commodities in our country fell, the average price of imported commodities fell even further. This change in trade conditions was favorable to us, as the balance between imports and exports had shown a net profit. However, because the rate of exchange was not readjusted, it gave the impression that export deficits had increased sharply with imports netting a profit. If the rate of exchange cannot correctly reflect the change in price parity, then, the criteria for comparing the amount of value and the accounting based on this foundation are lacking.

2. It is necessary to have a relationship in benefits based on industry-trade integration.

The computation of genuine and false deficits means combining the production and circulation links in accounting. However, the relationship between

industry and trade is still a simple relationship between purchasing and marketing which cannot genuinely "bring the two into the open." Therefore, this kind of accounting is frequently organized by comprehensive economic departments and cannot be closely integrated with the economic benefits of the enterprises. This kind of accounting will have a solid foundation and can play a greater role if there is a relationship in benefits based on industry-trade integration. Therefore, we propose that from now on, though letting some large enterprises directly handle the export of industrial products, the export of most industrial products be consigned to foreign trade agents. Industrial products, such as tires which come in small lots and large quantities, may be directly handled through export agents; other industrial products in bigger lots with more varieties and small quantities may also be handled by agents in a more flexible way. Foreign trade departments may use the lowest export selling price they set in reference to the international market conditions as the purchase price for industrial products after deducting the fixed circulation expense in the export links. If the actual selling price is higher than the lowest export price, this difference will be divided on a percentage basis according to a certain ratio between foreign trade and industry (such as 2 percent and 8 percent or 3 percent and 7 percent and so forth.) In so doing, on the one hand, a direct comparison between the cost and the international value of export commodities can be made and the computation of genuine and false deficits can completely replace the high or low deficits that cannot fully reflect the social economic results. On the other hand, it can also promote coordination between industry and trade on the basis of each giving play to its own advantages and thus mobilize the enthusiasm of both sides to unite as one in dealing with foreign countries so as to further improve results.

3. It is necessary to institute a set of integral methods of accounting and advanced accounting means.

As mentioned above, the methods for computing genuine and false deficits are far from perfect. Consequently, besides collecting data on operations of industries and foreign trade, it is necessary to establish a set of readjustment procedures. For example, a certain percentage should be added to the wage outlays of export commodities in a unified manner so that the portion of social subsidies can be compensated. The best way to establish a set of accounting procedures under the condition of supporting exports with imports is to compute the prices for all major raw materials according to the international market price. In this way, by protecting the principal with a small margin of profit, we can utilize surplus labor and production capacity to develop production to the fullest extent and increase exports to achieve the goal of developing production by taking advantage of the international market. To this end, it is necessary to understand international market trends in a timely manner by making use of the overall information and establishing a national information center with foreign trade and industrial departments in various localities and organizations studying market conditions overseas

forming a network, by using electronic computers in collecting, storing, analyzing and computing the actual domestic cost of export commodities, the actual cost in terms of foreign exchange, the international market quotations and forecasting. If this work is well done, it will give full play to the superiority of the centralized and unified foreign trade operational and management system in our country.

In short, even if we compute genuine and false deficits of export commodities well, we still have to do a great deal of work. We must earnestly support industry and trade by strengthening cooperation between them. We must compute the account of results well by proceeding from actual realities, from the social economic results and from the long-term interests of national economic development. We must not deny all this lightly and allow export trade to revert back to the same state that was marked by discrepancies in accounting and errors in policy decisions causing economic losses to the state.

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FOREIGN TRADE AND INVESTMENT

TIANJIN GAINS IN INVESTMENT, TECHNICAL IMPORTS

OW170236 Beijing XINHUA in English 0222 GMT 17 Mar 85

[Text] Tianjin, 17 Mar (XINHUA)--Tianjin, a major port city in north China, has quickened the pace of business negotiations for the import of foreign funds and technology this year, Hou Yigang, director of the city's committee of foreign economic relations and trade, said here today.

In the first 2 months, 22 contracts for Sino-foreign ventures were signed, about 43 percent of the total for last year. They involve 10.18 million U.S. dollars in foreign investment.

The biggest item is a washing machine factory, a joint venture with an Australian firm, which requires an investment of 8.74 million U.S. dollars and the smallest, a 160,000-U.S. dollar laundry.

The contracts for technology and equipment imports signed in January and February came to 74, some 41 percent of last year's total. This changed the situation in which the first quarter of a year was usually a slack business season, Hou said.

The imports will include continuous-casting machines, food-processing equipment and technology for manufacturing mining machinery.

Hou said that the number of both technology-intensive projects and West European cooperators has increased.

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FOREIGN TRADE AND INVESTMENT

ANHUI GOVERNOR VIEWS EXPANDING OVERSEAS TIES

OW110905 Beijing XINHUA in English 0758 GMT 11 Mar 85

[Text] Hefei, 11 Mar (XINHUA)--China's eastern province of Anhui will increase its economic ties with the international community by importing more investment and technology, and expanding foreign trade, the provincial people's congress was told here last Saturday.

Reporting on provincial government work at the congress session, Governor Wang Yuzhao said that the province will make use of \$US50 million of foreign investment for 200 projects this year. In addition, its foreign trade volume will amount to \$US358 million.

The province will adopt more flexible policies in taxation and offer preferential treatment to local Chinese-foreign joint ventures, cooperative enterprises, enterprises of sole foreign ownership and other investors from outside the Chinese mainland.

In the past year, the governor said, the province signed 196 contracts involving foreign investment, import of technology and other economic and technological cooperation with foreign countries.

In addition, he said, the province has contracted to build projects in some Arab and African countries, and started almost 200 research projects with advanced countries.

Anhui and the province of Lower Saxony in Federal Germany became sister provinces last September. It has also established a special partnership with Federal Germany's Rhineland-Palatinate Province in economy and trade, and it now has trade ties with over 90 countries and regions.

Anhui has also established ties of economic cooperation with more than 20 provinces, autonomous regions and municipalities of China. Over 400 cooperative projects have been started in coal, building materials and light industries, and investment from other parts of the country amounted to 400 million yuan (about \$US143 million) last year.

CSO: 4020/149

FOREIGN TRADE AND INVESTMENT

ABUSE OF LICENSING TRADE DISCUSSED

Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 4, Jul-Aug 84 pp 29-32

[Article by Wu Jia [0702 0163] of the Department of Industrial Economics of the Shanghai Academy of Financial and Economic Affairs: "Acts of Abuse in Licensing Trade"]

[Text] With the development of our socialist construction and the implementation of the policy of opening to the outside world, our work of importing technology has developed very rapidly. We are gradually moving from primarily importing entire projects, complete sets of equipment, single machinery and other hardware, to primarily importing such software as production technology, technological process, equipment manufacture and business management technology. In the midst of this, licensing trade is increasingly expanding its position and role and has become an important method and means of importing technology for our country. We can foresee that, with the publication of our country's "Patent Law" and the establishment and implementation of the patent system, that the advanced technology that is imported to our country will be legally protected. This will remove the suspicion and worry of foreign businessmen. Thus, licensing trade will develop in an even faster and greater manner in the work of importing technology into our country.

The launching of licensing trade is an extremely complex and arduous task. Some foreign businessmen have often abused their patent rights because our country has not had a complete patent system, and because our concerned personnel have lacked the knowledge of international trade and patent law and lack the understanding of the situation of the technological market abroad. In the licensing agreements, these businessmen have added certain sums and terms that are harmful to our country's interest, and have brought about political and economic losses for our country.

In order to safeguard our country's legal rights in the licensing trade and to do all we can to obtain factors favorable to us, all the working personnel who are involved in licensing trade must not only understand the situation of the market abroad without delay and have a knowledge of international trade, but must also become familiar with and master the

patent laws of the concerned countries, so as to be good at seeing through the acts of abuse of patent rights of some foreign businessmen.

The so-called acts of abuse refer to the restrictions and rules added to the licensing agreement which are irrelevant to the patent. According to Art 1 of Section 33 of the "Standards for Protecting Inventions for Developing Countries," published by the Joint International Bureau on Protecting Knowledge and Property Rights": Any article in a licensing contract or relevant contract that imposes restrictions outside the rights entrusted by the patent on the licensee either industrially or commercially will automatically become invalid.

In the international licensing trade today, acts of abuse fall into the following general categories:

I. Restriction of Commodity Export Territory

This is an extremely common restriction in licensing trade. Through licensing agreements, the patentor either entirely or partially prohibits the licensee to export the products which the latter obtains through application of the patented technology. This has directly or indirectly hampered the export potentials of those countries which have received the patented technology. Often, this restriction has the following five manifestations:

A. The party importing the technology is prohibited from exporting its commodities.

B. The party importing the technology must obtain the approval of the patentor in order to export the products.

C. The party importing the technology is prohibited from exporting its commodities to some countries and regions.

D. Restriction is imposed on the party importing the technology to export its commodities to some countries and regions.

E. The party importing the technology is limited to exporting its commodities through the agents designated by the licensor.

Many countries hold that the inclusion of the above-mentioned restrictive clauses in a licensing agreement is illegal.

II. The "High-Pressure Sales" Clause

In international trade, sometimes, in importing certain commodity brands or trademarks, the concerned countries can include a "high-pressure sales" clause in a contract or agreement in order to guarantee product quality. This means that the exporting party must provide the raw materials, parts and spare parts needed by the importing party in the production of certain products.

Some foreign businessmen often used this method to add in unnecessary "high-pressure sales" clauses in the licensing agreements, thereby restricting the source of raw materials of the importing party, causing the latter to lose the right to use the international market and international prices while making it convenient for the exporting party to monopolize raw material, parts and spare parts supply. At the same time, because the importing party has adopted the high-price raw materials of the exporting party, it has in turn raised its cost and weakened the competitive ability of its products on the international market.

III. Package License

The package permit is also a common method in international licensing trade. This means that the licensor uses a series of licenses on patents and technical know-how as the terms for a certain license and demand the licensee to accept the whole package. Under the circumstance when the licensee needs or is willing to accept the package, this type of package license cannot be regarded as an act of abuse. However, it is an act of abuse if the licensor imposes upon a licensee who does not need or is unwilling to accept the package, acceptance of this package license in clear violation of the latter's will. In the United States, this violates the antitrust law. In Spain, package licensing is an act of abuse and there is a regulation prohibiting its inclusion in a licensing agreement.

IV. Stipulations Concerning Technological Improvement

As the speed of updating modern knowledge is greatly accelerated, a patented technology oftentimes will be developed and renovated within a short period of time. Thus, a clause concerning technological improvement is often included in many licensing agreements, and regulations on the ownership of the results of the development and improvement of a patented technology and the question of the right to submit patent application are clearly stated.

First of all, on this issue, the licensor and licensee should abide by a fair and reasonable principle of reciprocity. There should be a bidirectional flow of the knowledge and renovation of both parties. This means that, within the valid period of an agreement, the licensee should provide for the licensor without compensation the improvement and renovation of the original patented technology. In turn, the licensor should provide for the licensee without compensation the development and improvement of the original patent. Sometimes, through a feedback clause in the licensing agreement, the licensor asks the licensee for transfer and feedback of the technological improvement in the patent implementation without exercising the reciprocal duty of providing the results of the improvement for the licensee. This should be regarded as

unfair, for it brings about a unidirectional flow of knowledge and renovation in which only the licensor makes the gains. At the same time, this is unfavorable to mobilizing the enthusiasm of the licensee in making improvements and conducting research. For this purpose, Art 29 of Brazil's "Industrial Property Right Law" stipulates that: According to the terms and purpose of this law, the licensee enjoys all the rights of the improvement made on the product or method. In concrete trade talks, we will not accept the unidirectional flow which some countries stipulate as legal.

Second, there is the issue of how to treat the right to submit a patent application on a technological improvement. There are two different viewpoints: One viewpoint holds that improvement and renovation are carried out on the basis of the original patent. Without the original patent, there will be no results of improvement and renovation. Thus, the patent application should be submitted by the licensor. Another viewpoint holds that technological improvement is the result of man's labor. Since the discovery right should belong to the creator, the right to submit a patent application should belong to the one making the improvement. The exporting party often would find all kinds of excuses in licensing trade talks to demand the exclusive right to submit any patent application. In this regard, we should not make gratuitous concessions, but should argue strongly on just grounds according to the spirit of the patent law.

V. The Use of Trademarks

The U.N. World Knowledge and Property Rights Organization once stipulated that: The importing party may wish to use a trademark (joint trademark) that combines its own trademark and that of the licensor. It may also wish to use a series of different trademarks (related trademarks) that embrace common characteristics. The difference is merely in the explanation of the different uses as a result of the small changes in product composition. Under these circumstances, both parties hope that appropriate clauses will be included in the license regarding the use of these related and joint trademarks and the registered trademarks which both parties should honor. It also stipulated that: The licensors of foreign trademarks can use the reputation of their enterprises and the reputation of relevant trademarks of those enterprises to penetrate into the market of the developing countries. Then, they can register their trademarks locally and, through licenses, permit the local companies to use these trademarks until the products holding these trademarks have fully established their market. After that, they can reject the renewal of the existing license for the importing party.

In view of the unique characteristics of the domestic market in our country, the impact of the issue of the use of trademarks is not great. However, internationally, trademark and market are oftentimes linked. We may lose the international market as a result of the restriction on the

use of trademarks. Thus, in licensing trade talks, we not only must attach importance to distribution on the international market, but must also pay attention to the clause regarding the use of trademarks to see if it conforms to the spirit of the stipulation of the World Knowledge and Property Right Organization and to see if it serves to guarantee and develop the market which we have established.

VI. No Dispute Clause and Guarantee Clause

A no dispute clause is an unreasonable clause which the licensor imposes on the licensee in certain agreements. It forbids the party which imports the technology to raise objection to the validity of the patent of the exporting party, and forbids any suit being brought in any country against the validity of the patent within the valid period of an agreement. Also, any suit brought for others is also forbidden. Some agreements even stipulate that when the rights of the licensor is infringed upon, the licensee has the duty to assist in bringing suit against the third party. However, the licensor will shoulder no responsibility for any infringement of rights against the third party or for any losses of the third party.

Obviously, this clause is extremely unfair. Under the restriction of this clause, the importing party must unconditionally accept a technology which will soon expire or where controversies exist involving the patent, while the exporting party is not responsible for the losses the importing party incurred as a result. This obviously infringes upon the interests of the importing party.

Regarding this act, the importing party can refer to a relevant stipulation in the United Nations "Methods of Importing Technology for Some Countries": "Generally speaking, in international licensing trade, before investing in new enterprises and equipment, the party which imports the technology must include a clause in the agreement in which the party exporting the technology will guarantee that the licensing agreement has not violated any patent rights. The party importing the technology generally will ask the exporting party to provide this type of guarantee. In the event that an infringement of rights occurs, the exporting party can resolve the problem by paying penalties or making arrangements accordingly." The inclusion of the guarantee clause in the agreement requires the licensor to guarantee the validity and legality of its patents and the assumption of full responsibility when controversy around the patent occurs. Of course, the guarantee clause is not a necessary content for every licensing agreement. But it is necessary when diametrically opposed to the extremely unreasonable no dispute clause.

VII. Import Fees

Import fees are extremely important in licensing trade talks and the most complicated issue in international trade. Oftentimes, the exporting and importing parties must undergo protracted and arduous talks over this issue before an agreement can be reached. This is an item of extreme concern for foreign businessmen. Our personnel who participate in the talks should also pay special attention to this issue, keep abreast of all kinds of materials and information without delay, seize opportune moments, expose any false appearances which the opposing party may create, cautiously avoid being fooled, and strive to take the initiative in obtaining greater benefits for the country.

In licensing trade, some illegal foreign businessmen may use a myriad of fraudulent measures and oftentimes may resort to all possible means to obtain great profit. The following are the primary measures:

- A. By not fixing a time limit in the license, they will ask for coverage of all expenses during the entire term of use of the patent.
- B. They will export those patents which will soon expire or which have already expired as new patents, and ask for payment from the importing party.
- C. They will ask for payment for patents which have not been used yet.
- D. They will ask for unreasonably high prices.
- E. They will impose inappropriate or prejudicial user fees.
- F. They will ask for payment beyond the valid period of the agreement.
- G. They will ask for an excessively high percentage of profit deduction.
- H. The prepaid fee is not deducted from the profit deduction.
- I. They will collect fees under all sorts of pretexts.
- J. They will sell patents as technological know-how.
- K. They will transfer an ordinary license as an exclusive license.

VIII. Other Acts of Abuse

In addition to the above acts of abuse, there are the following acts which are also considered acts of abuse of patent rights: restriction on the realm of use of a patent; restriction on the management by the licensee; restriction on the research work of the licensee by stipulating that personnel should be provided by the licensor; and the stipulation of foreign legislative rights in solving disputes over an agreement. Some countries have separately stipulated prohibitions on the above-mentioned acts.

FOREIGN TRADE AND INVESTMENT

GANSU OVERFULFILLS 1984 EXPORT QUOTA OWING TO RECTIFICATION

HK301131 Lanzhou Gansu Provincial Service in Mandarin 2300 GMT 29 Jan 85

[Text] Impelled by party rectification work, our province overfulfilled the 1984 quota for foreign trade. The operational ability of the foreign trade departments and affiliated organizations in our province was originally weaker. In particular, under leftist influence and due to a bureaucratic work style, they had had a large stock of export goods.

In the course of party rectification, the provincial CPC committee sent a work group to help the party group of the economic and trade department to penetratingly inspect bureaucratism, to eliminate leftist influence in foreign trade work, and to strictly deal with personnel who had made serious mistakes, so that there was an improvement in foreign trade work. In coordination with departments concerned, the provincial economic and trade department and all import and export companies concentrated forces to fulfill the quotas for the gross import and export value and for some 100 commodities item by item. They also assigned tasks to shifts and groups and ensured that individuals could fulfill their quotas, thus making departments and individuals have a sense of responsibility for fulfilling their quotas. They did everything possible to promote sales and to increase profitable exported products and strove to improve the quality of exported products so as to improve the situation in the stock of export goods.

Last year, with a view to supporting foreign trade, the provincial government used the method of reducing taxes and profits in some commodities which incurred losses in foreign trade. This played an active part in fulfilling last year's export quota.

CSO: 4006/454

FOREIGN TRADE AND INVESTMENT

GROWTH IN TV INDUSTRY DISCUSSED

Beijing LIAOWANG [OUTLOOK] in Chinese No 48, 26 Nov 84 p 28

[Article by Gao Yuchun [7559 7183 2504]: "The Wings Which Enabled the Television Industry to Take Off"]

[Text] It has only been several years since the television industry in our country has taken off. In 1958, our country set up the first television station--the Beijing Television Station. At that time, the annual output of television sets throughout the country was only roughly 200 sets. By 1978, although the television industry has developed to a certain extent, the annual output was still small, the quality was poor and safety performance was low. However, unexpectedly, by 1983, the annual output of television sets in our country totaled 5 million sets. In the first half of this year, we have produced over 4.1 million black-and-white television sets and over 440,000 colored television sets. It is estimated that we will produce 1.2 million colored television sets this year.

What focusses our attention even more is that, with the increasing use of television throughout the country, our country's television industry is gradually becoming an industrial system of a definite scale ranging from scientific research to production and having a complete set of products.

What brought about a relatively fast take off of our country's television industry? The major reason is our boldness in taking "short cuts" in developing the television industry--our boldness in importing advanced technology and equipment from abroad to swiftly equip our country's ability in producing television sets. In doing so, we have installed a pair of powerful "wings" which enabled our country's television industry to take off.

The import of television production technology is one of the earliest large-scale import projects since the implementation of the policy of opening to the outside world in our country. This is done in a diverse manner. In 1979, the Beijing Dongfeng Television Factory first processed bulk parts imported from abroad. After that, in 1980, the Shanghai No. 1 Television Factory imported a whole set of production line for producing 200,000 colored television sets annually. Later, the television trades separately carried out cooperation with Japan's National, Hitachi, (?Victory), Sharp, Sanyo, Sony and Toshiba, Germany's Telefunken, and Holland's Phillips. In some cases, we

imported whole sets of bulk parts, key equipment, management methods, processing technology and production technology. In others, we imported a complete production line. In still others, we imported "software" only. With the imported technology, we transformed the existing equipment in our country. In this way, we raised by a wide margin the quality and output of television sets of our country within a short period of time.

Furthermore, we cultivated and developed the processing ability and assembly level of some factories in producing parts, thereby revitalizing the entire electronics industry.

In the import, the television trades have paid great attention to learning and absorbing the imported technology. This also constitutes an important reason for the rapid development of our country's television business. Their import has stressed advanced as well as suitable technology. In the last few years, with the continuous expansion of the scale of import, our country's ability to "absorb" has also continued to increase. This has greatly stimulated the development of the television industry among nationalities and the improvement of our technological level. For a long time in the past, our country has experienced the problem of relatively poor reliability and stability with our television sets. In recent years, with the help of advanced technology from abroad, we have basically solved this problem. By 1982, the major television products at home have almost caught up with and surpassed the advanced level of similar products internationally in reliability and stability. The rate of returned products for repairs of the early days has dropped conspicuously. The rate of qualified products upon delivery has also risen rapidly from 80 percent to 96 percent. At present, one-fourth of our country's television sets has better picture quality and three-fifths of our television sets have better accoustic quality than those of Japan's. Some of our name-brand television products are of overall better quality than similar products from Japan. By 1983, the full performance of most of our country's television sets has met the demands of the International Electrical Engineering Commission.

The import of advanced technology has also promoted competition among similar trades at home and product updating and upgrading. In order to improve product quality and guarantee the production standard, many factories have now vied with one another in adopting advanced nonadjustable and organically whole components so as to guarantee that their own products will not "fall behind."

The speed of dissemination of television is also astounding. Today, even Xinjiang has television factories, which have just begun to put their 14-inch "Xue Lian Brand" black-and-white television set on the capital's market.

The import of advanced technology has also encouraged the various enterprises to speed up their pace in adopting production components and parts of international standard. In 1981, our country has set up a committee for assessing the quality of electronic components and parts. It has used the unified international and domestic technological criteria as the basis, and has raised the level of quality management over the factories. In the future, the committee is prepared to use the method of issuing license for the production of components and parts in order to stem out the entry of below-standard products into the market.

In the beginning, when large quantities of Japanese television sets entered our country's market, many people were worried that that would assault the nationalities' industry. However, in just a few years, the concession of a portion of our market has produced tremendous results. We have gained precious time to make our first move toward attaining the existing more advanced technological level in the world and have swiftly formed a large-scale production capability. Not only have we not "toppled" our nationalities' industry, but we have "burst forth" with vitality and even "rushed" toward the world. This is also something which many people have not expected.

9335

CSO: 4006/274

FOREIGN TRADE AND INVESTMENT

BRIEFS

FUZHOU-HONG KONG JOINT VENTURE--The United Electronic Company, a joint venture of Wanqiu Watch Company, Ltd., of Hong Kong and Fuzhou Watch Factory and two other units in China held a ceremony for the formal signing of agreement in Fuzhou yesterday. For 4 years, Fuzhou Watch Factory has been processing the materials supplied by Wanqiu Company for making electronic watches, and the present joint venture marks a further development of this cooperation. It was agreed that Fuzhou Watch Factory will provide the land, factory buildings and equipment, while its Hong Kong partner will supply advanced foreign processing technology and the technological data, bring in new technical equipment and novel designs, provide technical guidance and training for the workers, and be responsible for 70-80 percent of the foreign sales. The company in Fuzhou will produce both digital and analog quartz watches and similar ornaments as well as other related electronic instruments. [By Chen Yuqiong [7115 3768 8825]] [Text] [Fuzhou FUJIAN RIBAO in Chinese 25 Dec 84 p 1] 9411

SHANGHAI TO EXPORT CARS, BUSES--Shanghai, 11 Mar (XINHUA)--A foreign trade symposium sponsored by China's leading industrial city, Shanghai, has resulted in the signing of contracts for the export of 160 cars, 55 mini buses and 215 motorcycles to Hong Kong and the United States. These will be the first exports for Shanghai's auto industry. Meanwhile, the city has agreed to enter into a joint venture with West Germany's Volkswagen Company for the production of 300,000 cars and 500,000 automobile engines annually by 1995. [Text] [Beijing XINHUA in English 0654 GMT 11 Mar 85]

CSO: 4020/149

SPECIAL ECONOMIC ZONES

SOCIALIST NATURE OF CHINA'S OPEN DOOR POLICY DISCUSSED

Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 11, 15 Nov 84 pp 22-25

[Article by Bao Xinyi [0454 1800 6965]: "A Discussion of the Socialist Nature of China's Open Door Policy"]

[Text] On the basis of continuing to run economic zones, the significant policy decision of the CPC Central Committee to further open up the 14 coastal cities and Hainan Island has been warmly supported by Chinese and foreigners alike. How we solve the fundamental problem of how to understand the nature of the open door policy directly affects the people's enthusiasm and level of political consciousness toward the work of open door policy, and carrying this one step forward, it will affect the smooth implementation of the policy. Thus, strengthening the demonstration and propagation of the socialist nature of China's open door policy is a task that cannot be ignored by social science theoreticians.

I

Policies are the lines and tasks realized by the state and political party during a certain historical period that determine the behavior and norms of people. In the final analysis, correct policies are of service in promoting the development of productivity. They both help and hinder the development of social productivity and are an important basis for judging whether a certain policy is correct or wrong. In the context of our own society, they are also an important basis for determining whether a certain policy is socialist or capitalist in nature.

China's current stage is a socialist system which has incomparable advantages compared to the capitalist system, yet because our socialism emerged from a fairly backward and poor semifeudal, semicolonial society, during the course of construction which was not very long, there were many natural and manmade calamities; thus, our economy is still backward and the livelihood of the people is still far from being prosperous. The low level of development of productive forces has greatly affected the superiorities of socialism and the development of the socialist system. Faced with this objective reality, the policies of the party and the government that direct socialist construction must be flexible and diverse, must be good at seeking and using certain flexible interim forms and must serve the acceleration of the undertaking of

socialist modernization and construction. Experience has already proven that the open door policy and the policy of running SEZ's and economic and technical development zones have greatly promoted the development of productive forces. Not only are they unable to adversely influence the socialist system, but they are also extremely important measures that are beneficial to the development and perfection of China's socialist system.

Some comrades are worried that China's productivity must be based on self-reliance, and that this base will encounter problems with the large amounts of foreign capital and foreign technology that we are importing at the present time.

Self-reliance and acting independently and with initiative have always been our fundamental guiding principles, yet due to the influence of long-standing "leftist" ideology, many comrades misunderstand self-reliance and acting independently and with initiative to mean closing the country to international intercourse and struggling in isolation, and they feel that a socialist economy does not need to study capitalist economies and does not need to engage in international intercourse with capitalist economies. Otherwise, they feel, the socialist point of view may vacillate. As early as 70 years ago, Lenin made a penetrating point about this one-sidedness: "Some people in this society say that we can build socialism without studying the bourgeoisie; I feel that this is the mentality of residents of central Africa. I cannot imagine what other kind of socialism there is besides the socialism that is based on all the experience that has been gained from capitalist culture. Socialism without post and telecommunications and machinery is nothing more than empty words."¹ Lenin gave the following definition of socialism: "That which is happy to assimilate the good things of foreign countries: the Soviet Union + Prussia's railroad management system + American technology and trusts + American national education + etc. = the sum total = socialism."² In this famous exposition on socialism, Lenin informs us in a penetrating manner that upholding self-reliance and acting independently and with initiative does not only not conflict with implementing the open door policy, but the two even go together; the two are socialist policies that are needed by socialist nations. To be sure, self-reliance is primary and the open door policy is secondary. With regard to their complementary relationship, the former is the basis and the premise of the latter, and the latter better upholds the former. "We must be based on self-reliance in carrying out socialist modernization and construction, and we must mainly rely on our own bitter struggle. In no way can this viewpoint vacillate. The goal of expanding foreign economic and technical exchange is to increase the capability to be self-reliant and promote the development of the national economy, but in no way can it harm the national economy." (cf Hu Yaobang's Report at the 12th CPC Congress)

Some comrades are suspicious: if we let foreign capitalists come to our country and run firms, even if they are able to promote the development of our productive forces, won't our workers still be exploited by them and become the targets of their exploitation?

Implementing the open door policy and building SEZ's and economic and technical development zones requires that a large amount of foreign capital activity

appear on our soil. There is no denying the fact that whether it is importing materials and processing them and compensatory trade or joint ventures and independent ventures, they are all using our labor to bring surplus value to foreign capital. That is also to say that the open door policy allows the existence of a certain type of exploitation. Since there is exploitation, people must then raise the penetrating question: "Is this socialism or capitalism?" On this problem of the unavoidable exploitation created when using foreign capital, Lenin early on clarified the scientific attitude of Marxists. He pointed out at the Soviet Union's Eighth CPSU Congress: "I feel that in carrying out commodities exchange with foreign countries that we should do it this way, we understand the necessity of engaging in commodities exchange and our fundamental interests require that we acquire locomotives, machinery, electronic materials and other production materials from capitalist countries as quickly as possible. Without these production materials, our factories will be unable to obtain the machinery that they need, and we will be unable to earnestly restore our factories even a little bit, to the point that we will basically be unable to restore our factories. We must buy into capitalism to double our profits. What capitalism receives will be excess profit, and this excess profit will be taken away by them. What we receive will be important things, and with these things we will certainly be able to consolidate, and finally stand up and triumph over capitalism in the realm of economics." This scientific attitude of Lenin's has an extremely profound and realistic guiding significance for China today in understanding the activity of foreign capital in SEZ's and economic and technical development zones! Based on Lenin's scientific approach, we must carry out a specific scientific analysis of the exploitation phenomenon of foreign capital in our country. First, all foreign capital activity in China is confined within certain limits and is used under China's legal restrictions; thus, it is state capitalism under a socialist system. The certain amount of exploitation that this type of state capitalism brings along with it can in no way in a complete sense harm the interests of the nation and the interests of the workers. Second, although we have lost some profit in using foreign capital to run enterprises, we have obtained a large amount of funds and advanced technology, have earned great profits and have thus greatly promoted socialist economic construction. Third, our workers who are employed by joint-venture and independent-venture enterprises are not at all the same as workers employed in a capitalist society; they are socialist workers who have their autonomy and their own economic and political status. They do work in special state capitalist enterprises. These three points explain that the phenomenon of a small amount of exploitation that is brought about by the foreign capital activity in our country is different from the capital exploitation phenomenon in capitalist countries; on the one hand, foreign capital has restrictions and is limited by socialist countries and, on the other hand, it benefits the entire cause of socialism. Therefore, we must not refuse to implement the open door policy because there is a certain amount of exploitation brought about by the use of foreign capital.

Comrade Deng Xiaoping made a penetrating point: "The socialist system is not the same as a specific method for building socialism." "The socialist system is superior to the capitalist system. This is manifested in many respects, yet the primary manifestation is the rate and results of economic development. Without this point, there is no use in bragging any more."⁴ The experience of

the open door policy once again informs us that we must unswervingly support the fundamental theory and basic principle of scientific socialism, yet we should not take a narrow and pure road to socialist construction, use doctrine to replace experience and use illusion to replace reality. We must have a firm foothold in promoting the development of productive forces and adopt the many different ways and methods that are beneficial to the development of productive forces. All methods that are advantageous to the entire socialist cause are allowed in socialism and are not necessarily rejected in scientific socialism.

II

China's series of policies for opening up to the outside world are socialist and not capitalist in nature, and because implementing the open door policy is an objective demand raised for the development of socialist economic construction, this objective demand is determined by a socialist economy that has a mutual dependence on the world's capitalist economies.

Marx and Engels pointed out as early as 100 years ago: "Because the bourgeoisie have opened up the world market, they have caused the production and consumption of all countries to become internationally-oriented." "In the past, the state of self-sufficiency and being closed to international intercourse of these areas and peoples was replaced by mutual intercourse and mutual dependence in all respects between these peoples."⁵ After human society entered large socialized production, the development of industry and commerce brought the entire world together; the mutual dependence, utilization and promotion between the economies of all countries is an important law of development of human society brought about by large socialized production. In the present era, the trend of mutual dependence and openness of each country's economic development is getting even stronger with each passing day. With the development of large modern socialized industrial production and new S&T, international economic relations have already expanded from the realm of circulation to the realm of production, and what originally in international trade was usually only the exchange of primary raw materials, food products and manufactured goods has already developed to many different types of cooperation and technical cooperation between production departments. Because of the restrictions of natural conditions, production capability and technical level, no one country is capable of producing everything that it needs for itself and cannot completely grasp all of the world's advanced technology. Thus, under modern conditions, each country must depend on and cooperate with other countries for funds, technology, labor, natural resources, information, etc. This type of mutual dependence and openness of the economies of all countries is a necessary result of the development of modern productive forces. Thus, it is also a progressive trend in the development of history.

The socialist system and the capitalist system are societies that are different in nature. However, the development of the socialist economy also possesses a dependence on and openness toward the economies of modern capitalist countries. This is first of all because today the socialist system still exists in only a few nations. From the viewpoint of the entire world, there is still one unified market, and capitalist economies still hold the dominant position in this one unified market. China's socialist economy is also a component of the

world's unified market. Thus, it is still an objective reality that capitalist economies have an influence on socialist economies and that socialist economies are dependent on capitalist economies. Second, socialism must be based on large socialized production. With the development of productive forces, the process of socialized production will improve with each passing day. This not only requires that socialist nations strengthen relationships between each sector, unit and region of the national economy but especially requires that every day they more broadly develop economic and technical exchange with other countries, especially with capitalist countries with a fairly high level of modernization and socialization. Third, technology and labor management knowledge by themselves do not have any class or ideological character. They are the common riches of humankind and are things that all men can use. Thus, it is completely necessary and also completely possible for socialist countries that are relatively backward economically and technologically to assimilate the funds, advanced technology and certain advanced management experience of modern capitalist countries to vigorously develop their own economy and promote the development of their own cause of modernization. Even if the economy of a socialist country is fairly strong, it can still learn from the strong points of other nations to offset its own weaknesses. Comrade Mao Zedong as early as 1956 proposed a policy for mobilizing all positive domestic and foreign factors to serve the cause of socialism, and this is also the fundamental policy for China today in building socialist modernization. Building socialist modernization that has Chinese characteristics requires that, based on self-reliance, we expand our field of vision from a domestic to an international scope, and not only must we be free to mobilize all domestic and foreign factors, but we must also have a free hand in using all possible foreign factors and use all of our strong points to offset our weaknesses.

In short, the mutual dependence between socialist economies and capitalist economies determines the open door policy of the socialist economies and determines China's long-standing necessity for implementing the open door policy. It is really based on the reality of Marxist fundamental theories and China's ever-growing dependence on all countries of the world that since the Third Plenum of the 11th CPC Central Committee, the party has clearly proposed using two types of natural resources--domestic resources and foreign resources; opening up two markets--the domestic market and the international market; and studying two different skills--organizing domestic economic construction and developing foreign economic relations.

At the present time, China's socialist economy is faced with the challenge of the new worldwide technological revolution, and this objective situation requires that China accelerate the implementation of the open door policy. If we are still like people who are "living in utopia," and we refuse to study countries who are technologically a step ahead of us and refuse to import the advanced technology and advanced equipment that they have already created, then without a doubt we are committing a strategic error and are acting contrary to the goals and aims of socialism. What is socialism? Basically, socialism must have greater productive forces and higher productivity than capitalism, create greater social riches than capitalism and cause all members of society to free themselves from poverty and become prosperous as quickly as possible. Through the open door policy, we must "seize the day, select and use the new results of

technology, accelerate China's modernization and construction and reduce our economic and technological gaps with the advanced nations."⁶ This is a significant policy decision for pushing China to quickly catch up with the world's advanced technology, is in accord with the interests of the people and is China's long-standing fundamental national policy for enriching the people and creating a flourishing nation.

III

Correctly understanding the socialist nature of China's open door policy is related to the problem of how to correctly understand the nature of SEZ's and economic and technical development zones. Many specialists feel that the economic nature of SEZ's is: a comprehensive economy that uses state capitalism as its main theme. That is to say that the main economic component of SEZ's is the state capitalist economy: whether it is a Chinese-foreign joint venture enterprise or an independent foreign capital venture enterprise, they both come under the category of economies of a state capitalist nature. At the same time, the specialists also feel that the economic management system of SEZ's is an economic management system under the planned guidance of the state and has market adjustment as its primary feature. That is also to say that the state capitalist economy of the SEZ's is state capitalism under the unified guidance and management of socialist state planning and is not that type of state capitalism of capitalist countries that is completely dominated by the bourgeoisie and their countries. An understanding of the economic nature of SEZ's and the nature of economic management systems mentioned above is basically also applicable to the situation of economic and technical development zones. These two concepts--the nature of the economy and the nature of the economic management system, are two levels of one thing and are two indisposable aspects for correctly understanding the nature of SEZ's and economic and technical development zones. The unification of these two aspects explains that the nature of China's SEZ's and economic and technical development zones is state capitalism of a special nature, i.e., socialist state capitalism. Under a socialist system, developing this type of state capitalism with conditions and limitations as a supplementary policy of the socialist public economy is certainly socialist in nature and is not capitalist in nature. In fact, the manner in which we treat state capitalism has already become a key to whether or not we can correctly understand the nature of our open door policy.

In order to obtain a theoretical scientific basis, we must review Lenin's series of discussions on state capitalism. The main arguments follows:

1. There are two different kinds of state capitalism: state capitalism under a socialist system and state capitalism under a capitalist system. "State capitalism which is considered as a major factor of new economic policy, under the condition of the Soviet regime, is a type of capitalism which is intentionally permitted and restricted for the working class."⁷ "State capitalism is capitalism the scope of whose activities we are able to control and regulate. This type of state capitalism is closely related to the state, and the state is the workers, an advanced component of the workers, a vanguard and the people."⁸

2. Therefore, socialism must use state capitalism to promote the socialist economy, because "state capitalism is a centralized, statistical, supervisory object and an object of socialized large production, and we are lacking these objects." Thus, "we can cause the organizers of state capitalist enterprises to become their own helpers," and through the strengthening of large socialized production by state capitalism, strengthen the unified planned economy of the state.

3. Assimilating foreign capital and using foreign capital to vigorously develop the domestic economy is an extremely important path for implementing and using state capitalism. This is "the most appropriate of all feasible methods," and is the correct way "to establish a synthesis between the Soviet regime and the countryside."¹⁰

4. It is not an expedient measure for socialist nations to implement and use state capitalism, but rather it is a long-term policy. "If a state regime pays attention to the working class, they can make the transition to communism through state capitalism."¹¹

5. Socialist nations that implement and use state capitalism are not retrogressing. "State capitalism is not to be feared in Russia, moreover, it is advancing."¹²

6. We must have a practical and realistic attitude in studying and treating state capitalism. "With regard to the problem of state capitalism, I feel that our press and our party have made a mistake, i.e., they have colored the bad habits of the intellectuals, have sunk into liberalism, think themselves clever in their understanding of state capitalism and always read old books. Yet what is written in old books is completely a different matter: what is described in these old books is state capitalism under a capitalist system, and there is no book that mentions state capitalism under a socialist system. Even Marx had nothing to say on this point and did not leave behind any precise words that we can cite, and his irrefutable guidance has been lost. Thus, we must now chart our own course."¹³

It must be pointed out that although Lenin's thesis proceeds from the reality of Russia being in a transitional stage at the time, its basic spirit still has an extremely realistic guiding significance for China today in correctly understanding its implementation of state capitalism. The scientific difference between the two types of state capitalism is especially important. In his argument on state capitalism, Lenin gives us an inspiration: under a socialist system, we must completely develop our socialist economy by taking many paths and adopting numerous forms. We need only to maintain a socialist direction and principle, and these forms and paths will definitely be socialist in nature.

Each task of socialist construction must proceed from a country's national conditions and take its own path to development. In implementing the open door policy, we can neither indiscriminately copy word for word the method used by the Soviet Union at the time nor can we indiscriminately copy word for word the

current methods of a few socialist nations, but we must take a road to a socialist open door policy that possesses specific Chinese characteristics. In fact, within certain limits and under certain conditions, using and developing state capitalism to promote a socialist economy has been a successful way for our party to lead the cause of socialist construction. During the early 1950's, did we not adopt purchasing measures, and under the guiding plan and control of the state, strive to develop state capitalist industry and commerce? It is already a historical conclusion that the policies that we used, restricted and transformed are completely socialist in nature. The open door policy which fully utilized state capitalism to promote China's socialist modernization and construction was also completely socialist in nature, and this is a scientific conclusion which recent history has made.

FOOTNOTES

1. "The All-Russia Central Executive Committee," in "Collected Works of Lenin," Vol 27 p 285.
2. "An Outline of 'The Current Tasks of the Soviet Regime'," in "Lenin's Manuscripts," Vol 3 p 94.
3. "The Collected Works of Lenin," Vol 31 p 435.
4. "The Current Situation and Tasks," "Selected Works of Deng Xiaoping," pp 214-215.
5. "Manifesto of the Communist Party," "Selected Works of Marx and Engels," Vol 1 pp 254-255.
6. Zhao Ziyang's "Government Work Report" at the Second Session of the Sixth National People's Congress.
7. "Soviet Citizens Assigned to North America," "Lenin's Manuscripts," Vol 4 p 403.
8. "Political Report of the Central Committee of the Communist Party of the Soviet Union (Bolshevik) [CPSU]," "Selected Works of Lenin," Vol 4 p 627.
9. Cf. "Conference of The Executive Committee of the CPSU," "Collected Works of Lenin," Vol 27 pp 269-270.
10. Cf. "The Fourth CPSU (Bolshevik) Congress," "Collected Works of Stalin," Vol 7 p 304.
11. "A Response to the Questions Raised by Reporter (Ah Lansuomu [phonetic]) in 'Manchester Health Report'," "Collected Works of Lenin," Vol 33 pp 364-365.
12. "CPSU Moscow Municipal and Provincial Branch Secretary and Representatives Conference Report on the Grain Tax," "Collected Works of Lenin," Vol 32 p 283.
13. "Political Report of the CPSU Central Committee," "Selected Works of Lenin," Vol 4 p 626.

SPECIAL ECONOMIC ZONES

CONTRACT EMPLOYMENT SYSTEM REPLACES LIFELONG JOB SYSTEM

Guangzhou YANGCHENG WANBAO in Chinese 15 Aug 84 p 2

[Article by Fang Jun [2455 7486]: "On Contract System of Employment by Election"]

[Text] The Shenzhen Municipal Committee of the CPC declared recently the implementation by stages and in groups of a responsibility system of managers (plant managers) in enterprises throughout the city, and it has also replaced the system of employing cadres by appointment with a contract system of employing cadres by election. This is a major reform of the cadre and personnel systems. The so-called contract system of employing cadres by election is a system in which candidates are nominated for a differential election at a congress of staff and workers. This is done on the basis of doing propaganda and mobilization work well to make the masses understand the objectives and significance of reforming the cadre system, of elucidating the importance of selecting cadres in accordance with conditions for the "four modernizations" of the cadres, of going through full deliberations, nominations and public opinion polls by the masses, along with the adoption of a principle of securing organizational assessment and approval, and of integrating the leadership with the masses. The managers (plant managers), after having been elected, are required to present a list of the candidates for deputy managers to the congress for a rated election, and those who win more than 50 percent of the votes are elected. Both the managers and the deputy managers, after having been elected, must still secure a confirmation from their supervisory departments at a higher level. Then they will receive certificates of employment, affix their signature in public, make "administrative speeches" and set forth their ideas and proposed measures for running enterprises properly. The period of employment is generally 2 years, in which mid-term votes of confidence are cast.

The contract system of employing cadres by election demonstrated a great vitality right after its birth. The practices of the Shenzhen Friendship Company and the Shekou Industrial Park have shown that the implementation of this system has made the leadership organs march one giant step forward in upgrading the ranks of cadres to be more revolutionary, younger in average age, better educated and professionally more competent. Of the leadership cadres employed by 12 corporations under the direct jurisdiction of the Shekou Industrial Park, 82 percent are of the college educational level, and this has noticeably upgraded the economic results of enterprises within 1 year, whereas the original leadership organs of the Friendship Company were once beset with problems in spite

of two restructurings and three replacements of responsible leaders (officially appointed by supervisory departments at the higher level). Yet the subsequent employment of a group of "sensible people" by election to function as leaders (at the average age of 39) has opened a new horizon never before experienced in the enterprise. This measure of employing the able and virtuous people, of putting men of talent to use and of picking the wise and employing the capable not only has tremendously boosted the enthusiasm, sense of responsibility and devotion to work of the people employed, thereby enabling them to set rigid demands upon themselves and to work cautiously and conscientiously, but has also facilitated the search for gifted people, the development of men of talent and the arousal among staff and workers of enthusiasm to studying and make progress, thus bringing into being a prospect that is lively and animated in the enterprises.

The powerful vitality of the contract system of employing cadres by election consists in its capability of effectively abolishing the system of lifelong jobs, that is, the removal of "ironclad armchairs"--secure jobs. Under the existing cadre system, there are indeed some people who muddle on and drift along in their capacity as officials. They do not seek to make achievements but strive to avoid making mistakes, believing that they are protected by the system and its policies as long as they do not commit acts of corruption or make "big blunders"; that if they "are denied jobs here," they "will get jobs there"; and that after all they are "roly-polies who cannot be toppled." And so a number of people who are ignorant and incompetent, who are persons of mediocrity and who are in a state of inertia have been able to hold on to their leadership posts for a long period of time without ever feeling ashamed of themselves. After the implementation of this system, the situation will be different: those who have no ability must step aside and make way for men of virtue, and those who have no achievements in their official careers will be considered men of fallibility. Having no achievements means making mistakes." This is a clarion call set forth by the Shekou Industrial Park. Some people have been asked to step down because their achievements are ordinary and because they are incapable of opening up a new vista. Conversely, the leadership cadres who have performed their duties brilliantly and won the trust of the masses are continually nominated, reelected and rehired to carry on their leadership responsibilities. This has again made it possible for qualified leadership personnel to accumulate rich experiences in their long-term work, to upgrade their professional levels and to ensure a continuity of specialized leadership.

A very vital point of the contract system of employing cadres by election lies also in its embodiment of the advantages of election and contract employment as well as in its conformity with the principle of intergrating the leadership with the masses and combining democracy with centralism. The implementation of the public opinion poll and the election by ballot does not constitute an act of "making decisions solely on the basis of what the masses say" or an abandonment of party leadership. For at the time of implementing the contract system of employing cadres by election, not only is it necessary to carry out a series of pre-election propaganda and guidance work by entrusting the masses with the policies of the party and by selecting cadres in compliance with "four modernizations" conditions, but it is also essential to secure from the higher

supervisory departments an after-election confirmation, the approval of employment and the issuance of certificates of employment. This means holding oneself responsible not merely to the masses but to the higher supervisory departments as well. However, under the existing system of employing cadres by appointment, the appointed cadres usually know only of their responsibilities to the upper management, are afraid only of their immediate superiors and do not take the masses into account, and some have even abused their power by encroaching on the legal rights and interests of the masses, etc. Now, with the leadership personnel placed under the constant supervision of the masses, the various corrupt practices listed above can be avoided because the masses have the right to vote and the right of recall in dealing with leadership personnel. China is a country with a long history of feudalism, a country in which it is not very easy to eradicate thoroughly the pernicious influences of feudal autocracy in the ideological and political domains. A gradual realization of the election of people to public offices, with the masses exercising constant supervision over them, is an effective means of overcoming bureaucracy. It is also an important issue that has to be solved by a system of appointment and dismissal of cadres that possesses Chinese characteristics.

It is true that this new system is still required to go through a process of perfection, and that this system cannot be carried out for the time being in some units that have not been consolidated, that are seriously plagued by factionalism and that have not yet attained a healthy prevailing atmosphere. This increases the responsibility of the higher supervisory departments, the organizational departments and the personnel departments. Now that history has entrusted our organizational and personnel departments with the glorious duty of reforming an inappropriate cadre personnel system, we must redouble our efforts and be brave in making reforms, keep practicing and strive to explore a cadre personnel system that possesses Chinese characteristics.

12315

CSO: 4006/30

LABOR AND WAGES

XIAMEN ECONOMIC ZONE LABOR MANAGEMENT REGULATION

OW160531 Fuzhou FUJIAN RIBAO in Chinese 24 Feb 85 p 2

[Text] The Xiamen Special Economic Zone Labor Management Regulations (Adopted by the Eighth Meeting of the Standing Committee of the Sixth Fujian Provincial People's Congress on 14 July 1984):

Article 1. The regulations herein were formulated in accordance with the related laws and regulations of the People's Republic of China.

Article 2. The labor plans and personnel assignments of the special zone's enterprises are determined by the enterprises themselves with a report submitted to the Xiamen City Labor Bureau for the record.

Article 3. The special zone's enterprises may carry out employment of staff members and workers by themselves, or may ask the special zone's labor service companies to make recommendations for examinations and selections.

The probation period for staff members and workers employed is 3-6 months.

Article 4. The special zone's enterprises are not permitted to employ school students, or adolescents under 16 years of age. The recruitment of rural forces, or staff members and workers from inland, by the special zone's enterprises can be carried out only after approval by the Xiamen City Labor Bureau.

Article 5. The special zone's enterprises shall implement contract systems in the employment of staff members and workers. The contents of the contract should include: Employment, dismissal, and resignation of staff members and workers; duration of contract; production tasks and work, wages, reward, and punishment; time of work and leave; labor insurance; welfare; labor protection; labor discipline; and other items. Labor contracts must be reported to the Xiamen City Labor Bureau for the record.

Article 6. The special zone's enterprises have the right to carry out management over staff members and workers of their respective enterprises in accordance with the labor contract. The staff members and workers are entitled to all rights provided by law and stipulated by labor contracts.

Article 7. The forms and standards of wages, incentives, and methods of subsidies for staff members and workers of the special zone's enterprises are determined by the enterprises.

Article 8. The special zone shall carry out the social labor insurance funds system.

The special zone's enterprises must pay to the organizations designated by the Xiamen City People's Government each month an amount of social labor insurance funds equivalent to 25 percent of the total amount of the wages for the staff members and workers in their respective enterprises in order to pay the pensions of retired staff members and workers, funeral expenses and survivors' benefits incurred by the deaths of staff members and workers not occurring in line of duty, medical expenses, after retirement, and living subsidies during the period of unemployment after dismissal.

Article 9. The special zone's enterprises should retain a fixed amount of the welfare funds for the staff members and workers, and place it under their control for use as collective welfare funds and subsidies for medical and health protection, as well as for other hardships.

Article 10. The special zone's enterprises must purchase employers' responsibilities insurance from insurance companies designated by the Xiamen City People's Government. Staff members and workers who are injured, disabled, or killed in line of duty, and who suffer from occupational diseases are handled by the insurance companies according to stipulations.

Article 11. The special zone's enterprises shall carry out the 6-days-a-week, 8-hours-a-day work system. Overtime labor must not exceed 12 hours per week; overtime pay must not be less than 150 percent of the wage; and overtime pay for holidays must not be less than 200 percent of the wage.

Article 12. Days off and holidays for staff members and workers of the special zone's enterprises are:

Days off--1 day per week.

Legal holiday--7 days with pay; namely, 1 on New Year's Day, 3 on Spring Festival, 1 on International Labor Day, and 2 on National Day.

Wedding leave--3 days with pay.

Maternity leave for women staff members and workers--maternity leave with pay must not be less than 56 days.

Sick leave--leave less than 13 days accumulated in a year must be paid. For leave from 13 to 24 days taken by staff members and workers with 10 years of employment, 60 percent of the wage shall be paid; those with 10 to 15 years, 70 percent; and those with more than 15 years, 80 percent.

Annual leave, leave for the funeral of lineal relatives, sick leave exceeding 24 days, and other leaves and wages are decided by the enterprises.

Article 13. Staff members and workers of the special zone's enterprises have the right to establish grassroots-level trade union organizations, and carry out activities in accordance with the "Trade Union Laws of the People's Republic of China."

The major tasks of trade unions of the special zone's enterprises are: protecting the lawful rights of staff members and workers; assisting the enterprises in arranging the use of welfare funds; organizing staff members and workers to carry out cultural, physical culture, and amusement activities; educating staff members and workers in abiding by labor discipline; making efforts to fulfill the various economic tasks of the enterprises.

The special zone's enterprises should positively support the work of the trade unions, and allocate 2 percent of the total amount of wages of their staff members and workers each month as trade union funds.

Article 14. Enterprises in the special zone may dismiss their staff members and workers according to the provisions of the labor contracts, but a 1-month notice should be given to the staff member or worker concerned, the enterprise trade union, and the labor service company of the special zone.

No staff member or worker should be dismissed when he or she is injured in the line of duty, is being treated for or recuperating from an occupational disease, or is hospitalized for treatment of illness or injury caused by reasons other than the performance of duty. No female staff member or worker should be dismissed when she has been pregnant for 6 months or more or when she is on maternity leave.

When a staff member or worker of an enterprise in the special zone is dismissed during the contract period or discharged upon termination of the contract, the enterprise should give him or her a compensation, the amount of which should be based on the length of service and the average wage for 6 months preceding the dismissal or discharge.

Criteria for the amount of compensation are as follows: The amount of compensation is equivalent to one-half the monthly wage for those whose length of service is less than 6 months. If the length of service is more than 6 months but less than 1 year, it is treated as 1 year; the compensation is 1 month's wage for each year of service. For those with more than 10 years of service, the compensation for each year of service is equivalent to the wage for 1 and 1/2 months, starting from the 11th year.

Article 15. Resignation of staff members and workers should be handled according to the contract. A 1-month notice should be given to the enterprise.

Staff members and workers who left their work posts to receive training at the enterprise's expense and who resign prior to the completion of 2 full years' service after the training should pay a training fee to the enterprise. The terms of payment and the amount of the fee should be stated in the labor contract.

The enterprise should send a copy of the list of staff members and workers who have resigned to the labor service company of the special zone.

Article 16. Enterprises in the special zone should state in their employment contracts with foreign, Hong Kong, Macao, and Taiwan staff members and workers such matters as employment, dismissal, resignation, remuneration, welfare, reward and penalty, and social insurance for such staff members and workers. A copy of the employment contract should be sent to the Xiamen City Labor Bureau for the record.

Article 17. Enterprises in the special zone must comply with the provisions of the laws of the People's Republic of China on labor protection and on special production of female workers so as to ensure safety in production and the health of staff members and workers. The Xiamen City Labor Bureau has the authority to check and supervise this.

Article 18. Enterprises in the special zone may take necessary punitive action, according to the seriousness of the case, against those staff members and workers who have violated the regulations and rules of the enterprises with certain consequences. The punitive action may be as heavy as discharge from employment in serious cases. When an enterprise decides to discharge a staff member or worker, it should give a written notice to him or her and to the enterprise trade union, and should report this to the Xiamen City Labor Bureau for the record.

Article 19. Labor disputes in enterprises in the special zone should be resolved by consultations between the two sides involved. The enterprise trade union may take part in the consultations, if deemed necessary. If the dispute cannot be resolved through consultations, the parties concerned may request arbitration by the Xiamen City Labor Bureau. If any one of the parties refuses to accept the decision of arbitration, it may file a lawsuit at the people's court.

Article 20. These regulations take effect from the date of promulgation.

CSO: 4006/470

LABOR AND WAGES

BRIEFS

BEIJING YOUTH EMPLOYMENT--Beijing, 11 March (XINHUA)--Some 1.08 million young Beijingers, nearly all those who needed jobs, were found them by the municipal government between 1979 and 1984. City Planning Commission Chairman Wang Jun announced this today in a report to the Fourth Session of the Eighth Municipal People's Congress. Wang said only some 1,600 pre-1983 middle school graduates remained unemployed, apart from a few preparing for college entrance or staying home for other reasons. Those failing to enter colleges, vocational schools or secondary technical schools were encouraged to join collective businesses or become self-employed while preparing through professional training to sit examinations a year later for state and collective businesses. This year, Wang added, the capital would find 80,000 jobs for 1984 middle school graduates, 1985 technical and vocational school graduates and demobilized soldiers. [Text] [Beijing XINHUA in English 0808 GMT 11 Mar 85 OW]

NEI MONGGOL JOB ARRANGEMENTS--Since the Third Plenary Session of the 11th CPC Central Committee, Nei Monggol Region has arranged jobs for more than 1.34 million job seekers. In 1984, it arranged jobs for 198,995 persons, exceeding the plan by 28,900 persons, showing an increase of 64 percent over the previous year. It trained 59,177 persons, exceeding the plan by more than 4,100 persons, an increase of 32 percent over the previous year. Xingan league trained 5,731 persons, overfulfilling the training plan by 120 percent. [Summary] [Hohhot NEIMENGGU RIBAO in Chinese 3 Mar 85 p 2 SK]

CSO: 4006/483

15 April 1985

TRANSPORTATION

REFORM OF TRANSPORTATION STRUCTURE UNDERWAY IN HEILONGJIANG

Harbin HEILONGJIANG RIBAO in Chinese 12 Nov 84 p 2

[Article by staff reporter Li Yingnian [6786 6601 1628]: "Bring the Superiority of Highways into Play, Transport by Different Means"]

[Text] In accordance with data provided by the provincial economic commission, in the 10 months from January to October 1984, a total of 1.8 million tons of short-distance freight has been shifted from railways throughout the province to transport by highway trucks (more than double that prescribed in the decentralization plan of the Ministry of Railways), which means a savings of 36,000 carriages. According to one estimate, the railways can thus transport 1.2 million more tons of long-distance freight up to 400 km and the pressure on the various big marshaling stations can thus be alleviated to a certain extent.

Since the beginning of this year, on the basis of the spirit of the "Notice Concerning the Gradual Shift of the Short-Distance Transport of Goods and Materials from Railways to Highways," and in considering the situation of the pileup of goods and materials in our province, the provincial economic commission has made a vigorous study in cooperation with the responsible departments of railways and highways and the economic commissions of the various prefectures and municipalities. Practical and feasible measures as well as administrative intervention have been adopted and a rule has been established that all areas and sections where railway transportation has become a heavy burden, all key railway stations and seaports, all areas and sections where a sectional transport system is in practice and all key industrial and mining areas where there is a greater freight volume of goods and materials such as coal, lumber, grain, minerals, construction materials and beets must shift all these goods and materials for transport by highway trucks wherever the highway distance is less than 50 km. Highway trucks must also be utilized in specific areas within a distance of 100 km.

As soon as the principle of "diversifying transportation means" was clearly defined, all prefectures and municipalities put it into practice enthusiastically. Proceeding from the situation as a whole and having the macroeconomy in mind, Daqing Municipality acted first to allocate 80,000 tons of short-distance freight grain for transport by highway trucks without giving any thought to its own gains or losses. A total of 600,000 yuan was earmarked successively by the city to build wind and rain sheds covering a total space of 12,000 square meters for flour, rice and oil mills. The city also bought 22 new trucks and new equipment for protecting grain and new tarpaulin, padding stones and mats and hired

more than 70 porters to guarantee the smooth implementation of the task of diversifying the means of transportation. Prefectures and municipalities such as Nenjiang, Jixi and Harbin have all adopted the method of administrative intervention to diversify transportation means. They have made it a rule that trucks are to be used to transport goods and materials wherever the distance is within 50 km. The distance between the various coal mines of Jixi and the Jixi power plant varies from 2 to 3 km at the closest up to only 30 km. In the past, coal was transported only by trains which used up 3 days to complete a single loading and unloading. Beginning last year, they started to use trucks to transport a percentage of the coal. As a result, several rounds of loading and unloading can be completed on the same day. This year, they plan to transport more than 400,000 tons of coal by truck. Except for bulky goods and materials, railway transportation between Harbin and Shuangcheng, Zhaodong, Kangjining and Lalin has been shifted entirely to transport on the highways. From January to October of this year, a total of more than 600,000 tons of goods and materials of one kind or another has been shifted. More than 1,200 carriages have been vacated for the transport of long-distance goods and materials.

The provincial communications department has not only adopted the method of administrative intervention but also implemented the policy of seeking small profits in order to transport more goods and materials so as to guarantee the smooth accomplishment of the task of transport by different means. In order to ensure smooth traffic on highways which share the burden of cargo transportation, maintenance work must be strengthened, highway grades must be raised and the quality of the highway surface must be improved.

At present, although the volume of goods and materials transported by different means is still less than 40 percent of short-distance goods and materials, preliminary results have already been witnessed. As reported by the responsible comrades of the provincial economic commission in charge of communications, pressures on such big marshaling stations as Harbin, Jiamusi, Mudanjiang and Sanjianfang have already been obviously alleviated. The situation of such busy areas and sections as the Harbin-Suifenhe line, the Binzhou line and the Mudanjiang-Jiamusi line has been relatively mitigated. The income of both highways and railways has been increasing.

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CSO: 4006/282

TRANSPORTATION

PRESSURE ON TRANSPORTATION SECTOR TO BE ALLEVIATED

Harbin HEILONGJIANG RIBAO in Chinese 12 Nov 84 p 2

[Article by staff commentator: "Take Effective Measures To Alleviate Pressure on Transportation Sector"]

[Text] Since the founding of the People's Republic, communications and transportation establishments in our province have achieved considerable progress along with the development of the various enterprises in the national economy. Basically, a comprehensive transportation network linking all parts of our province has been formed, with railways as its arteries and is supplemented by highways, waterways, airways and subways. This network has played an important role in facilitating the interchange of goods and materials between the cities and the rural areas and between this and other provinces, in developing the national economy of our province and in supporting the country as a whole.

However, lingering "leftist" ideological influence, the backwardness of communications facilities, the irrational structure of transportation and the serious dislocation of the relationship between industrial and agricultural production have resulted in a situation in which goods cannot be distributed easily among the consumers and people find it difficult to travel. In this respect, it has become a prominent weak link in the development of the national economy of our province. For a considerable period of time, people have attached importance only to railway transportation while different types of transportation facilities such as highways and waterways have been totally neglected. Because goods are overly concentrated on railways, both passenger and cargo transportation on railways has become very tight. Moreover, because of the fact that the transport capacity of railways is inadequate and that it is technically backward, the current carrying capacity of some principal trunk lines such as the Harbin-Suifenhe line and the Binzhou line and of some key areas has either been approaching or has reached the saturation point. The carrying capacity of the key station of Harbin has already exceeded its saturation point. A great volume of primary goods and materials such as coal, lumber, grain, cement, minerals and construction materials are piling up and await transport. A situation like this has seriously affected the orderly improvement of production. The railways are overburdened while the carrying capacities of both highways and waterways have not been fully utilized. Compared to 1978, the freight volume

of railways has increased by 16.8 percent while that of highways has dropped by 21.6 percent. As a result, there has been an irrational situation in which the railways are overburdened and both highways and waterways are under used.

How can we remedy such an irrational situation in order to alleviate the tight situation of the transportation sector? At present, owing to the fact that we are limited by the financial resources of both the province and the state, it is difficult for us for the moment to increase by a big amount the investment in construction. Moreover, because it takes a long time to complete a new construction project, a slow remedy cannot meet an urgent situation. For this reason, we must get our foothold on readjustment and reform and try every possible means to tap the potential of both highways and waterways so that we can arrange a rational division of labor in order to have railways, highways and waterways share the burden of cargo transportation and to let each of them give full play to their respective superiorities. It is necessary for us to resolve further the irrational phenomena of duplication, congestion, coverings and short distances as experienced in railways transportation.

To shift the short-distance transportation of goods and materials from railways to highways is an important measure in order to resolve the question of the rational division of labor between railways and highways, to tap transportation potentialities and to alleviate the tight situation in the transportation sector. Therefore, in dealing with this problem, all departments must not be concerned only with the partial situation or with their own units alone. Rather, they must proceed from the situation as a whole and have the macroeconomy in mind in order to carry out and support enthusiastically the work of diversifying the means of transportation. The departments in charge of railway and highway transportation and all industrial and mining enterprises must stick to the principle that goods and materials are to be transported by either railway, highway, waterway or airway, whichever is most suitable, in order to do a good job as soon as possible in diversifying the long- and short-distance transport of goods and materials and to put it into practice.

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CSO: 4006/282

TRANSPORTATION

HEBEI ACHIEVES RAPID PROGRESS IN RAILWAY CONSTRUCTION

Shijiazhuang HEBEI RIBAO in Chinese 26 Aug 84 p 1

[Article: "Hebei Railway Construction Progresses Rapidly"]

[Text] Hebei is close to Beijing and Tianjin in the heartland of North China, being one of the provinces in the country with well-developed railway transportation. The railway density is 1.2 km per 100 km², second only to that of the northeast, and 2.2-fold greater than the national average. The branch railway administration bureau in the provincial capital of Shijiazhuang has the largest freight transport volume in the whole country.

The Tang-Xu Railway, the first to appear in this province was completed and open to traffic 103 years ago. It was also the first built by Chinese engineers. By 1949, 1,200 km of railway had been built in Hebei. Since the PRC was founded 35 years ago, railway construction in Hebei has advanced by leaps and bounds, having successively built six trunk lines, namely: Jing-Cheng, Feng-Sha-Da, Jing-Yuan, Tung-Tuo, Sha-Tung and Gan-Chang. The total mileage serviced has more than doubled. With over 120 km of double-track lines, Hebei is one of the provinces in China with the most double-track mileage.

Linking the two provinces of Shanxi and Hebei, the Shi-Tan Railway is the first electrified double-track railway in the country, with the transport capacity increased 14-fold compared with the early stages following liberation. As one of China's key construction projects, the Jing-Qin Railway completed its track-laying a year earlier than scheduled and began operation July 1, this year, carrying daily over 15,000 tons of coal. Shijiazhuang-Shanhaiguan is one of the 10 big railway marshalling yards in the country, with a daily handling capacity of over 10,000 cars. Shijiazhuang, in particular, has developed into a new-type pivot station with eight marshalling yards, having been mechanized and operated by semiautomation. Its daily handling capacity is over 16,000 cars (18,200 at the peak), apart from receiving and dispatching 132 passenger and freight trains. It is one of the few huge marshalling yards in the country.

Hebei's progress in railway construction has resulted in increased passenger and cargo transport capacity 4- to 5-fold and over 10-fold, respectively, undertaking three-fourths of the cargo and one-third of the passenger

transport loads of the province. Two of the three major routes in the north, center and south for Shanxi's coal shipments pass through Hebei, taking up over 80 percent of all coal shipments from Shanxi. Tens of millions tons of coal destined for northeast China and beyond also have to go through Hebei's trunklines.

12661

CS0: 4006/3

TRANSPORTATION

CAAC TO INCREASE FLIGHTS TO HONG KONG 1 APRIL

OW150850 Beijing XINHUA in English 0836 GMT 15 Mar 85

[Text] Beijing, 15 March (XINHUA)--The Civil Aviation Administration of China (CAAC) will run nine more flights a week on routes between six mainland cities and Hong Kong beginning 1 April.

The Chinese National Airline will operate 64 flights a week between Hong Kong and Beijing, Guangzhou, Hangzhou, Kunming, Shanghai and Nanjing during spring, summer and autumn. The move marks a 31 percent increase over the 55 Hong Kong flights a week CAAC had a year ago, an airline official told XINHUA today.

Services between Hong Kong and Beijing will be increased by 114 percent, while flights to Shanghai will be boosted by 64 percent over last year, the official added.

More Boeing 747s will go into use on Hong Kong routes in April. Wide-body airbuses will also go into service in August, in addition to the Boeing 707, DC-9 and Trident airliners already in service.

CAAC will also operate new charter services from Hong Kong to Chengdu, Dalian and Xian for Hong Kong and Macao compatriots and overseas tourists, the official said.

CAAC now runs charters between Hong Kong and Fuzhou, Guilin, Nanjing, and Xiamen. There are two flights a week each from Nanjing and Fuzhou to Hong Kong.

CSO: 4020/150

TRANSPORTATION

YUNNAN SPEEDS UP HIGHWAY CONSTRUCTION

Kunming YUNNAN RIBAO in Chinese 13 Nov 84 p 1

[Article by reporter Qin Yuhan [4440 3768 3352] and trainee Feng Dashu [6458 1129 2885]: "Construction of Simao-Lancang Highway Enters Its Climax"]

[Text] In a period of 10 months, the construction of the Simao-Lancang Highway, the first trunk line which the local government has ever contracted to build for the state, has entered its climax. After the completion of both the land survey and planning, the roar of guns in blasting cliffs on the 76-km section which has been assigned to the first-stage construction project has been reverberating throughout the remote mountains and gorges. The broad highway is stretching under the feet of the builders.

The Simao-Lancang Highway is an important trunk line to link up southwest Yunnan. The entire length of this highway is 180 km which is to be built in accordance with the grade-3 highway standard of the state. After completion, the driving distance between Simao and Lancang, the autonomous county of the Lahu nationality will be reduced by 155 km as compared with detouring through Jinghong County. The result will be an annual saving of more than 10 million yuan of freight and 5,500 tons of gas. This highway is of significance in such areas as the exploitation and utilization of resources along the highway line including forests, streams and mines, the development of the subtropical cash crops, the promotion of the development of commodity production in the mountain areas and the improvement of the living standard of the masses of the various nationalities.

The construction of the Simao-Lancang Highway is an attempt by our province to reform the system of highway building. It has changed the old system of dispatching professional contingents by the highway administration and maintenance department to take charge of construction. Except for the Lancangjiang River Bridge which is to be built by the professional contingent of the provincial highway bureau, the entire line is to be built by contractors' teams made up voluntarily by the peasants who hold "indigenous rice bowls." Contractors' teams from other parts of the country may also compete for contracts to take up construction projects after their "qualifications for taking up a construction project" have been examined. The contractors' teams themselves "calculate remuneration" according to the workload based on a cubic meter of earth and stone. They hold themselves responsible to the county governments (work undertaken by the branch headquarters) while the county governments hold themselves

responsible to the administrative offices (work undertaken by general headquarters) and the administrative offices hold themselves responsible to the provincial government. At each level, they guarantee the investment, primary materials, quality and completion date. They have committed themselves by "written pledges" not to disburse any money in excess of capital, not to prolong the time limit set for a construction project and not to lower the construction standard. Expenditure in excess of the budget will not be made up, but savings can be kept on.

The implementation of this method has preliminarily shown advantages in three areas: first, investment has been cut down. While a construction project is undertaken by a professional road construction brigade of the state, a large sum of money has to be spent on various items such as compensation, moving and management expenses. This "indirect expenditures," which is not spent directly on the highway, made up 40 percent of the total investment. In adopting the method of contracting at each level, the "indirect expenditure" is reduced to only 10 percent of the total cost. The person in charge of the general headquarters told the reporters that the investment made in each kilometer of the Simao-Lancang Highway is only equivalent to 30 percent of the sum needed by the professional road construction brigades of the state. Second, practical problems encountered in construction are easy to resolve. The professional road construction brigades have often found it not easy to resolve problems such as the requisition of land and the removal of existing structures. There have been many instances of "arguing back and forth." The implementation of this reform has aroused the enthusiasm of the local governments and the people. Problems have been resolved promptly and work has never been delayed. Third, the civilian workers work energetically. The method of contracting level by level has made contracting teams know fairly well about the time limit and the quality required of them in a construction project and the reward they will receive. They, therefore, use their brains, start work early and knock off late every day and do hard and solid work because they know that there is more money for more work. For this reason, their enthusiasm can be sustained. Lancang County, which has contracted for the first phase of a 32-km section of this highway, was originally planned to start work on 15 September. After mobilization and the announcement of this policy, the enthusiasm of the masses ran high and they moved the starting date up to 28 August. The eastern part of the county originally planned to supply only 200 men, but the people of the minority nationalities such as the Lahu, Thai and Hani participated in the work one after another, and the total number of workers finally amounted to more than 1,000. On the section contracted by Simao County, guns roll all day long and there is a cloud of dust. The 24 contracting teams composed of more than 2,600 workers catch up with each other to give full play to their capabilities. As a result, the rate of progress of the work has been steadily accelerated. On 20 October, a total of 150,000 cubic meters of earth and stone has been excavated and a total of more than 169,000 yuan has been invested. The work is now ahead of schedule.

TRANSPORTATION

REFORM OF ROAD-BUILDING SYSTEM URGED

Kunming YUNNAN RIBAO in Chinese 13 Nov 84 p 1

[Commentary: "Reform Road-building System, Speed up Highway Construction"]

[Text] The highway which extends from Simao to Lancang is a highway of greater economic value and of considerable significance in national defense in the south-western part of our province. This highway is now under construction. This is also an experiment of our province in carrying out the reform of the road-building system in order to carry out such practices as investment contracting, dividing labor with individual responsibility, permitting the local people to run with the assistance of the state and letting the local governments contract to build trunk highways.

The backward transportation system has become a serious problem which hampers the economic progress of our province. Our province covers a vast area. The weather of our province is delightful and we are rich in natural resources. The conditions here are very good for us in developing commodity production. In recent years, the party has steadily loosened its policies. More flexible policies have been adopted particularly in the mountain areas. These policies have already aroused the enthusiasm of the peasants of the various nationalities. They are now trying to develop and build the border areas and to promote commodity production. However, problems such as difficulties encountered in travel and transportation have become increasingly acute and the situation is especially serious in the mountain areas. Difficulties encountered in both travel and transportation have, on the one hand, prevented the various kinds of agricultural, sideline and special and local products of the border and mountain areas from being able to be shipped from their native places to the inland cities. The peasants cannot but helplessly look upon the fact that products of one kind or another which are produced by their own industrious labor cannot be turned into commodities to increase their income. On the other hand, the transmission of information on commodities outside of their own areas, the importation of equipment and technology and the transportation of industrial products to the rural areas have also been hampered. This situation has, in turn, hindered the development of commodity production, the prosperity of the economy and the improvement of the living standards of the people of the border and mountain regions. For this reason, the peasants sounded out with a powerful voice that "in order to make people rich, it is necessary, for us to start with road building."

The implementation of the methods such as investment contracting, dividing labor with individual responsibility, permitting the local people to run with the assistance of the state and letting local governments of all levels contract for construction is beneficial to speeding up the building of the trunk highway lines in our province. Since Liberation, there has been an obvious increase in the mileage of highway transportation and a rapid expansion of transportation undertakings in our province. However, in the past, the construction of trunk highways was mainly undertaken by the relevant departments of the state while road construction was mainly the responsibility of professional road construction brigades. People were inclined to think that the state is responsible for road construction which is not its business. Under such circumstances, disputes over matters such as the removal of surface structures and the requisition of land have become a common occurrence. Moreover, because of the tradition of "eating out of the common bowl" among the people concerned, the construction cost has become very expensive. In a situation like this, the first consequence is that the limited investment of the state is insufficient to satisfy the desires of many places that seek new highways. Second, even if the state makes investments in construction, it will not be very effective in road construction. The implementation of the method for local governments of different levels to contract for construction and to organize the peasants to engage themselves in road building makes the peasants feel that road construction is their own business and they, thereby, become very enthusiastic. For this reason, not only is there the enthusiasm of the state, but the enthusiasm of the local governments and the masses can also be brought into full play. The malpractices which has been brought forward by the old road-building system can thus be eliminated and the goal of cutting down investment costs, raising work efficiency, speeding up the pace and improving the quality can be achieved. The contracted per-kilometer construction cost of the Simao-Lancang Highway has been reduced by 50 percent as compared with that prior to the reform of the road-building system and this serves to explain well this point. Through practice, this method will become more perfect and break a new path in speeding up the pace of highway construction in our country.

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CSO: 4006/282

TRANSPORTATION

ZHEJIANG EXTENDS ROAD NETWORKS TO RURAL AREAS

Hangzhou ZHEJIANG RIBAO in Chinese 17 Aug 84 p 1

[Article: "Zhejiang's Highways Reach More Towns, Villages"]

[Text] Highway construction in Zhejiang is developing rapidly. By the end of June this year, the total mileage in the province had reached 23,340 km, a 10-fold increase compared with that of 1949. Throughout the province, 80 percent of the villages are already accessible by highways.

Zhejiang is known as a province which is 70 percent mountains, 10 percent water and 20 percent farmland. After the Third Plenum of the 11th CPC Central Committee, the provincial Communication Department has, according to Zhejiang's actual conditions, shifted the key highway construction projects to mountainous areas. It stipulates that not less than 60 percent of highway construction investments be allocated each year through various channels to Wenzhou, Lishui, Taizhou and other southern Zhejiang mountainous areas. This will appropriately raise the standard of subsidies toward funding the maintenance of mountainous areas, poor villages and old revolutionary bases where road conditions are in a sad state of disrepair. As a result, 27 mountainous counties in Zhejiang will have over 3,000 km of highways in the next 5 years. The implementation of the policy of privately undertaken and publicly supported road projects is the main reason for the rapid development of Zhejiang's highway construction. In recent years, both prefectural and rural enterprises in this province have developed very rapidly. The accumulation of their combined funds has also created conditions for other counties to undertake highway construction projects with their own funds. According to statistics, counties and villages in Zhejiang last year raised 30 million yuan for highway construction projects, about 70 percent of the total provincial investment in highway construction.

Highway construction has promoted the development of transportation and communication. Over 124,000 licensed private motor vehicles are operating throughout the province, a 102-fold increase compared with the early stages of liberation.

12661

CSO: 4006/3

TRANSPORTATION

BRIEFS

NEW ROAD FOR TIANJIN--Beijing, 6 Mar (XINHUA)--A new ring road will help ease Tianjin's traffic jams when it is completed in October, according to today's PEOPLE'S DAILY. Construction of the highway is one of 10 major schemes aimed at improving infrastructure facilities in Tianjin, one of the 14 coastal cities opened last year to foreign trade and investment, the paper says. Traffic has become so snarled that residents of the north China municipality complain that buses now run slower than bicycles. The 25-kilometer ring road will have three overpasses and seven bridges. Other schemes will include building a hotel street near the food street completed last year, rebuilding 260,000 square meters of old houses, renovating traditional style buildings on 40 streets and laying 400 kilometers of gas pipelines while work on two gas works continue. [Text] [Beijing XINHUA in English 1604 GMT 6 Mar 85]

GUANGDONG BRIDGES--Beijing, 7 Mar (XINHUA)--Guangdong Province completed nine large bridges with funds from various channels in 1984, PEOPLE'S DAILY reported Wednesday. The paper described that as an unprecedented achievement for the province. All the highway bridges are over 200 meters in length. The longest is a 1,024-meter span on the highway from the provincial capital, Guangzhou, to the Zhuhai Special Economic Zone near Macao. The province financed the construction with foreign funds, domestic bank loans and funds collected by local governments in addition to state allocations, the paper said. For the first time, it also began charging tolls on the bridges to help pay off the loans. All design and construction work on the bridges was put out for bids, construction companies which saved money or completed projects ahead of schedule were given bonuses, the paper said. All the innovative practices used on the projects were considered successful, and attracted attention from the Ministry of Communications, it added. [Text] [Beijing XINHUA in English 1048 GMT 7 Mar 85]

CSO: 4020/141

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

HUNGARY'S PRICE REFORM VIEWED BY HUNGARIAN ECONOMIST

Shanghai SHIJIE JINGJI DAobao [WORLD ECONOMIC HERALD] in Chinese 10 Dec 84 p 1

[Article by Berlin correspondent Shen Longguang [3038 7127 0342]: "Hungary's Economic Reform Enters a Crucial Stage"]

[Text] [Editor's note] At present, the inflation of prices appears to be faster than the increase in productive wages. S. Nagy, an expert in economic reform, believes that only through free prices can Hungary's economic reform be eventually successful. A little currency inflation should be no cause for holding wage increase.

"Only through free prices can Hungary's economic reform be eventually successful." This is the opinion of S. Nagy, an expert in Hungary's economic reform. According to his view, "there is no choice on the question of market, and people cannot create a market." In his talk with a FRANKFURTER ALLGEMEINE ZEITUNG correspondent, he especially expressed some views on the economic reform. He believed that the key to Hungary's economic reform lies in the price reform. Hungary's price policy has generally passed through three different stages:

In about 1968, Hungary decided on the economic reform. At that time, this country was not quite clear about the price issue and could only try to discover an "objective" price system by studying some socialist theories. Later some people thought that the use of computers could do away with the need for market information. Hungary had the same idea at first, but later discovered that computers could only supply some clues, but could not change anything.

After the oil crisis in 1973, Hungary's economic reform encountered a setback. In 1978, when the reform was resumed, the need to focus it on price and currency was realized. In the course of the reform, such questions as "What is rational price" and "What is rational profit" arose. Although Hungary explicitly stipulated in 1968 that "illegal profits" must be opposed, no clear definition of "rational profit" was given. By that time, it also passed a new law prohibiting "unsavory economic activities." This new law was predicated on free prices, although the floating of prices had to be kept within limits. Certainly, price reform has by now become an unavoidable issue.

Nagy believes that Hungary's reform has now entered a crucial stage as shown by the social imbalance and the faster rate of price inflation than that of productive wage increases. Certainly a little currency inflation should be no cause for holding wage increases. To raise labor productivity and to increase the competitive power of exports, the following measures should be considered: increased imports of the means of production; greater convenience to Western enterprises in promoting combined production with the West; substitution of a value-added tax for the tax to be levied in the productive spheres; reorganization of the banking system, particularly the commercial banks' concern for local conditions by avoiding over-concentration; possible abolition of state subsidies in 3 to 5 years; and encouragement for exports possibly through further depreciation of the Forint, although currency inflation has to be controlled.

All these measures are quite difficult in practice, and even more so if the international situation is unfavorable. "However," as Nagy added, "the days ahead would be even harder if we succumb to difficulties."

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CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

STRATEGIES IN INTERNATIONAL ECONOMIC DEVELOPMENT DISCUSSED

Beijing LIAOWANG [OUTLOOK] in Chinese Nos 45, 47, 49, 5 Nov, 3 Dec 84

[Article by Wang Jikuan (3769 4764 1401): "The Strategic Trend in International Economic Development and Related Countermeasures"]

[5 Nov 84 pp 15-17]

[Text] Editor's Note: In recent years, given impetus by the tide of the new technological revolution, some new trends have appeared in the international economy. These new trends deserve our conscientious study. Wang Jikuan, part-time researcher at the Shanghai Scientology Research Institute, recently wrote "The Strategic Trend in International Economic Development and Related Countermeasures." He not only has provided us with information and materials in this respect for reference, but has put forth some useful propositions in light of our country's situation. With the consent of the author, this journal will carry the entire article in consecutive installments.

I. Two Major Challenges Facing All Countries

Currently, the development of the international economy is shifting from a national economy to a world economy. The age of closing one's door is over. The world is linked together in one. All countries are faced with two major challenges: One is the large-scale competition and test of strength in the world economic war, especially with the shift of the focus of the world economy toward the Pacific Ocean. This is a challenge to North America, Japan and our country's region surrounding the Pacific Ocean. The other is the speed of development of the world's new technological revolution, which is faster than people have imagined. All countries are faced with the stern challenge of whether to narrow or widen the gap in technology.

In the midst of the two above-mentioned major challenges, the rise or decline, the prosperity or exhaustion, the floating or sinking, and the rising or falling of a country, a region, or even a city are determined by the following factors:

A. Can one conform to the tide of world economic development and effectively implement an open door policy in full?

B. Can one conform to the development of the productive forces and effectively reform one's economic system?

C. Can one be good at making use of the results of the world's new technological revolution and boldly meet challenges and try hard to catch up?

D. Can one formulate broad and long-term strategic programs for economic development, that is, macroeconomic and medium-scale economic plans, in light of the trend of international economic and technological development and in line with the reality of one's own country?

E. Can one recommend, use, give way to and nurture worthy personnel, and truly place economic work in the hands of worthy and capable individuals?

F. Can one strengthen the investment in mental resources and raise the cultural as well as S & T level of the entire nation?

The new challenges have even produced a sense of crisis in such a superpower as the United States. In his book entitled "Global Economic War," U.S. economist Lewis cries out in alarm that the most serious major event which the United States is faced with at present is "not the sustained confrontation between the United States and the Soviet Union, but the war of contention which the major countries of the world are waging in order to master the new global economy...." Currently, in the war of contention for the world market in steel, automobiles and consumer electronic products, the United States has lost to Japan. Western Europe and the newly rising industrial nations (Singapore, Hong Kong). For a long time, the United States has occupied the highest position in high-tech industry. Now, it is suffering from the fierce assault by Japan, Germany, France and Holland. Thus, the author is worried that: "If defeated, the United States will be reduced to the status of a developing nation in 10 to 15 years."

In the preface to the book "Fifth Generation: Artificial Intelligence and Japan's Computer Challenge to the World," a book jointly written by E. A. Feigenbaum, world famous computer scientist and professor in the Department of Computer Science at Stanford University, and P. McCorduck, a famous American author, the authors frankly stated that: "We have been complacent in other scientific and technological realms. Now, it is too late to regret. In the 1960's when the Japanese were actively promoting small cars, who took them seriously? In the 1970's when the Japanese planned to become the number one country in producing consumer electronic products, who took them seriously? In 1972, before manufacturing microelectronic chips (that is, integrated circuits) for commercial use, Japan already announced a state plan concerning those chips. Who could imagine that in 10 years the Japanese would have embraced half the market in the world's most advanced memory chips. Must we suffer another assault? The result of complacency and shortsightedness will cause our most important industry--the computer industry--to be trampled mercilessly. Japan, inversely, may become the world's industrial power." The authors continued: "Burning with anxiety, we have written this book." After the book was published, Reagan immediately read it and made a series of new strategic plans accordingly.

In the next 20 years, the various countries in the world will be faced with the stern test of the two major challenges. Who will be the fastest runner? Who will be the strongest? Concerned organs of the United States have once made the following strategic forecasts. They felt that if China could truly implement the grand blueprint which it had formulated and maintain the present impetus of opening to the outside world and economic reform, if China could attain the same epochmaking success in its reform of the urban system as in its reform in agriculture, and if China could regard worthy and capable individuals with importance and put power in their hands instead of making major mistakes in strategic policy decisionmaking, then China and Japan will be contending for the gold medal for the fastest runner. Furthermore, China may be the likely winner of the gold medal for creating miracles to welcome the 21st century. They also felt that the United States, Japan and West Germany would still be contenders for the gold medal for the strongest.

II. Modernized Large-Scale Economy Has Risen to the Leading Position

The international economy is still at a stage of multilevel, multistructural and pluralistic development by all. There is the natural economy involving small-scale commodity production, industrialized commodity economy, and even the primitive hunting-type economy. However, in the major industrially developed nations, a modernized large-scale economic system has already risen to a leading position. Modernized large-scale economy takes modernized large-scale industry, large-scale agriculture, large-scale engineering and large-scale science as the foundation. It is both quantitatively and qualitatively different from an economy involving small-scale commodity production. It is also vastly different from an industrialized commodity economy in a general sense.

The economy involving small-scale commodity production, the industrialized commodity economy and the modernized large-scale economy represent three different stages in economic development. Represented by a simple formula, the economy involving small-scale commodity economy is: raw material \rightarrow commodity \rightarrow market. Commodity production is determined by whether or not there are raw materials locally. Materials are obtained locally and the commodities produced supply the market locally. It is a self-serving closed economy. Production is undertaken on the basis of experience and simple technology and machinery. Products are the same every year with minimal changes. Thus, it does not attach importance to technology and to skilled personnel, and did not understand the importance of information.

The industrialized commodity economy can be represented by the following simple formula: market \rightarrow raw materials \rightarrow commodity. Proceeding from the demand on the market, one can make purchase from abroad or import raw materials from abroad. One can even make use of science and technology to create raw materials (such as synthetic fiber and engineering plastics) to produce export commodities in order to satisfy the demands of the domestic and international markets. In order to compete for and seize the market, one attaches greater importance to new technology, to product upgrading and updating, and to information and skilled personnel.

The modernized large-scale economy can be represented by the following simple formula: Resources → commodity → market. The concept of resources includes materialized and nonmaterialized resources. The former refers to industrial and agricultural raw materials and energy. The latter refers to information, technology, patents, software and intelligence. One utilizes modernized resources, the first of which is new technology, to produce new commodities with high efficiency. Instead of simply satisfying the general demands of the market, one aims at developing a new market of demand for mankind. For instance, by producing televisions and computers, one has developed a new market in this respect and raised the economic level to a new height. The characteristics of a modernized large-scale economy are manifested in an economy that involves information, systems, science and skilled personnel. In promoting a modernized economy, if one is not good at making use of and mastering information, then one will formulate blind and incomplete economic policy decisions. If one is not good at making use of systems engineering in organizing work, then one will bring about an economy with poor or no results. If one does not make use of scientific methods and abide by economic laws, then one will be penalized. In the final analysis, if one does not have great boldness of vision, courage and insight to discover, regard with importance, rely on and train several hundreds of thousands of skilled personnel in all specialized fields, then one will not be able to bring about an economy that involves information, systems and science, and will not be able to bring about a modernized large-scale economy. Of the above four characteristics, skilled personnel is the most fundamental characteristic.

In short, the power of a modernized large-scale economy lies in the fact that it can make use of the results of the world's latest technology, rely on the continuous reform of the economic system, and bring into play the roles of all economic levers and scientific management in order to attain the highest output value in the fastest way and create the best comprehensive economic results with the least amount of investment.

III. Opening to the Outside World Has Become the Basic Strategy For All Countries in Developing the Economy

The implementation of the policy of opening to the outside world has currently become the basic strategy for all countries in developing their economy. Only by adopting the policy of fully opening to the outside world, that welcomes competition by others and boldly places oneself in competition on the world horizon, can a country, a region or even a city have vitality and vigor and set a world record.

The implementation of the policy of opening to the outside world is the necessary result of the development of a modernized large-scale economy, large-scale science, large-scale engineering and large-scale agriculture. At the same time, it serves the development of a large-scale economy, large-scale science, large-scale engineering and large-scale agriculture. Its strategic goals are: learn from the strong points of the world to offset one's own weaknesses, use the strength of the five continents to bring prosperity to one's own country,

Although the open door policy involves politics, economics, science and technology, culture and sports, all the countries have put the focus on importing technology, importing funds, importing information and importing skilled personnel.

Currently, there are four immense resources internationally: First, there are roughly \$500 billion of bank deposits and floating capital in the world. Second, there are over 1 million mature advanced technologies and patents, which are increasing at an annual progressive speed of 15 percent (not including the sophisticated and high-level technologies). Third, there are more than 7 million professors and specialists (including those who are retired) of all fields. Fourth, there are roughly 4 billion news items which are dispatched all over the world every day, and which are increasing at an annual progressive speed of 18 to 20 percent. These are the treasures which the people of the world share. We should all utilize them. The key lies in whether or not we know how to utilize them, whether we have the ability to utilize them, whether we utilize them effectively, and whether we utilize them sooner or later. In spite of their greater economic strength, the United States, Japan and the countries in Western Europe still pay full attention to utilizing these treasures. For instance, the United States has invested roughly \$450 billion abroad and at the same time has utilized \$370 billion of foreign investment in the United States. Recently, it has again further relaxed its policy on foreign investment in the United States. Every year, it has brought in over 10,000 new technologies from the various countries in the world and hired with handsome pay several tens of thousands of specialists from various countries (including skilled personnel in sports, art and acrobatics). There are already over 1 million people in the United States who are using the latest information technology to obtain and transmit news (that is, information) via space and all corners of the globe every second of the day, to store and process information, and to carry out research in order to propose programs to enable policy decisionmaking.

After World War II, Japan's economy was in a state of collapse. However, for 40 years, it has unswervingly implemented the open door policy in full and thus has created a miracle in economic development in the postwar capitalist world. Under the present new circumstances, Japan is again formulating new counter-measures in an effort to maintain the "speed of the Japanese motor vehicle" which it has created.

In the last 15 years, the Soviet Union and the Eastern European countries have adopted to varying degrees the policy of opening to the outside world. Those countries which have done a good job in opening to the outside world and which have integrated the open door policy with reform also have scored better economic results. In particular, Hungary has scored rather conspicuous results, and has been honored as the "economic star of Eastern Europe."

Our country's move to further open to the outside world has aroused a high degree of attention internationally. Concerned specialists have felt that one should not underestimate China's determination and strength.

The U.S. Center for Strategic Study of International Affairs has conducted a study on our country's open door policy. They feel that the Chinese leadership's move to bring China from a closed to an open door economy that emphasizes a development is an extremely intelligent decision. After World War II, Japan's "senior statesmen" were once worried about the results of an open door policy. They were worried about the possibility of Japan's becoming an economic "colony" of Europe and America. Facts have proven the contrary. This is because economic strength is fearless and cannot be checked by any form of protective screen.

The above only represents a strategic trend which can be used as reference. I feel that, while opening to the outside world, we must implement an open door policy domestically and shatter the division between central and local authorities. Without an open door policy domestically, we cannot effectively implement the policy of opening to the outside world. The primary goals of opening to the outside world are to import technology, funds, information and skilled personnel in order to accelerate China's economic revival and serve the four modernizations. Before 1995, our country should follow the directive of the party Central Committee and the State Council, proceed from the strategy of overall development, make use of this opportune moment to strive to bring about major breakthroughs in the above-mentioned four aspects. This not only will be important for quadrupling the gross value of industrial and agricultural output by the end of this century, but will also lay the foundation for joining the world's front rank in the next century. The urgent task before us is to further emancipate our thinking, seize the opportune moment and try hard to catch up.

[19 Nov 84 pp 18-19]

[Text] IV. Large-Scale Reform of the Economic System and Industrial Structure Is Underway

The development in scope and in depth of the world's new technological revolution has promoted the large-scale reform of the economic system and industrial structure of all the countries in the East and West. The reform has promoted economic development, and economic development has in turn promoted the reform of the economic system and industrial structure. More and more countries have accepted this concept and have implemented a series of reforms accordingly. It is estimated that this reform will continue till the close of this century.

For the major Western countries, the main direction of attack in the reform of the economic structure is generally as follows: To change the multilevel pyramidal vertical structure into a forest-like horizontal structure; to transfer the power to the enterprises at the lower level in order to raise the competitive ability, adaptability and vitality for growth of the enterprises; to more rapidly transform scientific research into a productive force, integrate scientific research, education, production and foreign trade in an organic manner, and formulate an integral colony of scientific research, production and business (which some people refer to as a science park); and to reform the enterprises as well as the cities into open and radiating systems and place

them on the world's economic and technological horizon for competition. The development of large-scale science, large-scale engineering and high-level technology has also enabled the various countries to attach great importance to concentrating manpower, material resources and financial resources in making breakthroughs under the support of their respective government and in accordance with the guidance-style plans formulated by their respective government.

The reform of the industrial structure is developing in two aspects.

The first aspect is the development of technology-and knowledge-intensive enterprises in an attempt to increase the percentage of these enterprises in the gross value of industrial and agricultural output. The approaches are: First, to try to be the first to develop high-tech industries, or newly rising industries, with microelectronic technology as the key, and expand exports while creating the conditions for launching a technological transformation of the old enterprises at home. Second, to carry out transformation of the labor-intensive and capital-intensive old enterprises by making use of such technologies as microcomputers, remote control and remote sensing, and gradually transform these enterprises into technology-intensive enterprises. In view of the recent trend, the United States, Japan and Western Europe are still putting their strategic focus on the technological transformation of old enterprises, since this involves little investment and high output and brings about economic results most easily.

In the United States and Western Europe, there indeed are some traditional industries which are on the decline. Some of them have already become obsolete. However, large numbers of traditional industries are undergoing technological transformation by means of the latest technologies. In order to speed up the technological transformation of the old enterprises, the FRG Government has formulated a bonus method, which offers 15 percent bonus subsidies by the government to any enterprise which uses advanced technology to carry out technological transformation of an old enterprise. Those enterprises which import advanced technologies or patents for the first time will be exempted from taxes and given 30 percent bonus subsidies by the government. The textile industry, which was in a state of decline and was becoming obsolete, has undergone technological transformation of the whole trade in the last 2 years through the use of microcomputers. While the number of workers has been reduced from 500,000 to 240,000, the output value has more than quadrupled and a large quantity of new varieties has been brought forth. This policy has played an important factor in reviving the textile industry in the FRG. The United States has planned to double the gross output value of its traditional industries for 1982 by the year 2000. The primary approach to growth is still the systematic and effective transformation of old enterprises and not the enthusiastic expansion of many new enterprises. The same approach is taken toward communications and transport involving harbors and the railroad.

In transforming the traditional industries, agriculture, and communications and transport, the most effective method is the realization of the "four C's," namely, computer-aided design (CAD), computer-aided manufacture (CAM),

computer-aided engineering (CAE), and computer-aided quality-testing (CAT). In addition, a large quantity of machinery will replace heavy and harmful manual operation.

The second aspect of the reform of the industrial structure is to carry out transformation of the primary industries (agriculture, forestry, animal husbandry and fishery) and secondary industries (industry) revolving around the goal of little investment and high and fast output, in order to reduce the percentage of employed personnel. Then, attention can be devoted to developing the tertiary industries (banking, commerce, culture, education, public health, tourism, transportation, communications, posts and telecommunications, information, consultation services, accounting and legal services). The development and improvement of the primary and secondary industries will promote the development of the tertiary industries; the development of the tertiary industries will in turn improve the labor productivity of the primary and secondary industries and provide the factors for improving the comprehensive economic results in society. Without prospering tertiary industries, we cannot have highly efficient and fine-quality primary and secondary industries. The general trend of development of a modernized large-scale economy is: The more developed the primary and secondary industries and the closer they are toward the goal of modernization, the faster the improvement of the people's standard of living and the more prosperous the tertiary industries. In light of the history of economic and technological development in the modern age, the percentage of the tertiary industries (referring to the value created by the employed population) of an industrialized country should constitute roughly 30 percent of the gross national product. The percentage of the tertiary industries of a country with modernized industry and agriculture should constitute roughly 50 percent of the gross national product. Otherwise, the economic relations will inevitably be unsmooth and the large economic machinery will only be able to operate at low speed, with low efficiency and with no results.

In the United States, the primary and secondary industries are developed. The tertiary industries have been continually on the rise in the last 20 years. For instance, in 1965, the structural ratio for the primary, secondary and tertiary industries was 4:44:52. In 1982, it was 3:32:65. It is estimated that by 1995, it will be 2.6:22.4:75.

I feel that, in the "Seventh 5-Year Plan" period, our country should invest more funds and strength in carrying out transformation of our old enterprises. We should render full support to transforming and reviving the two old industrial bases--Shanghai and Liaoning--in our country. This matter brooks no delay, for the economic development of these two bases will play a decisive role in the economic takeoff of our country in the 1990's.

A key to the unsmooth economic relations in our country is our negligence in the development of our tertiary industries. Another task of top priority is to vigorously develop our tertiary industries in line with local conditions in order to further revitalize our economy.

V. The Strategic Trend of the World's New Technological Revolution

"Science and technology are the productive forces." The world's new technological revolution is creating an even more tremendous productive force in the history of development of mankind's production. Currently, the world's new technological revolution is advancing rapidly on the basis of "one vanguard, two major focuses and four frontier sciences." The computer, the vanguard of microelectronic technology, is now in the ascendant. It is estimated that in the next 15 years, with the use of the fifth and sixth generation intelligent computers, there will be a tremendous development in the intelligent robot. The United States has planned to produce 1 million robots (equivalent to the work capacity of 8 million workers) by 1995 to handle all kinds of arduous production labor and labor that cannot be accomplished by manpower. In addition, the United States and the Soviet Union are designing antinuclear, anti-chemical, paratroop and underwater robot corps.

The so-called "two focuses" refer first to biological technology. The United States, Japan, the United Kingdom, France and the Soviet Union have all regarded this as their most primary development goal. In light of its prospect, the productive forces which this technology will create for mankind will far surpass that of the microelectronic technology. The second is new-type materials, which form the basis for a technological revolution and an industrial revolution. These countries are working hard to develop optical waveguide fiber, amorphous silicon, engineering plastics, amorphous composite materials, high-temperature structural ceramics, titanium alloy, and mnemonic metals, and so forth.

The "four frontier sciences" are light and laser, new energy, maritime development and space development. Of these four, light and laser have developed at the fastest speed and have already been applied on a widespread scale. Greater potentials of this science may be brought forth through integration with microelectronic technology. In respect to new energy, the most hopeful breakthrough will be in the high-efficiency utilization of solar energy through the direct conversion of light into electric energy. In addition, there is new energy from secondary fission and controlled nuclear fusion. Maritime development and space development also embody great prospects. However, it is estimated that their abilities will not be brought into play until the next century.

The new technological revolution is effectively promoting economic development. The main directions of attack for the Western industrially developed countries are: First, to develop the information industry and create the conditions for the transition from an industrialized society into an information-oriented society. Second, to speed up the transformation of the traditional industries, create renewed labor productive forces on the basis of low consumption of energy, material and motive force, and add new vitality to the traditional industries. For this purpose, the development of a modernized large-scale economy must rely on a new technological revolution. By the same token, only by establishing a foothold in and rendering service to economic development (especially in transforming traditional industries, agriculture and transportation business by means of new technology, thereby adding new reproductive

and competitive abilities to these undertakings) can the new technological revolution have its own basis for development and powerful vigor for life.

We should be able to recognize the dual character of the new technological revolution. On the one hand, it has provided new and powerful productive forces for mankind. On the other hand, it has also become a new tool for the Western industrially developed capitalist countries to exploit and plunder the third world. We must not underestimate its depth and scope. We must not treat this new technological revolution with indifference, but must actively accept its challenge and try hard to catch up with it. Otherwise, we may become "colonies" of the Western advanced countries.

VI. The Strategic Trend of the Development of Foreign Economic Relations and Trade

As the vanguard and bridge for implementing the open door policy and promoting technological progress, foreign economic relations and trade have become the most vigorous link in developing the economy of all countries. With the impact of the world's new technological revolution, the foreign trade of various countries is displaying the following conversion trends:

A. The conversion from a singular mode of material exchange and material-money exchange in trade to a pluralistic (including investment, cooperation and compensation trade) and composite (integration between industry and trade, and integration between technology and trade) mode of trade. Foreign trade is also linked up with the international economy, technology and banking to form a new vital force.

B. The conversion from a traditional emphasis on commodity circulation to an emphasis on the circulation of resources. This includes materialized and non-materialized resources. The former includes mining products, agricultural products, and industrial products. The latter includes information, software, technology and patents.

C. The conversion from a single-function commercial service to a multifunctional service, which involves keeping abreast of international information, importing technology, bringing in foreign investment, supporting foreign affairs, coordinating with banking, and establishing overseas enterprises.

D. The conversion of the business mode from a government commercial organ with a traditional exclusive monopoly and a pyramidal structure to an enterprise structure with joint operations and profit sharing.

E. The conversion from regarding traditional primary products to regarding knowledge- and technology-intensive commodities as the major import and export commodities. Science and technology and knowledge are playing more and more important roles in international trade. The superiority of the cheap labor of the third world is gradually weakening.

F. In international trade, the conversion from decisionmaking based on simple information to decisionmaking based on an information network and the comprehensive analysis of information by computer. The development of information in international economy will first involve the development of information in international trade.

Thus, in employing and training foreign trade personnel, we must shift from training general commercial personnel in the past to training a revolutionary, young and specialized group, and enable a group of developer- and entrepreneur-type skilled personnel who understand technology, understand business, understand management and understand strategy to grow to maturity. Without a large number of entrepreneur-type skilled personnel, we will have difficulty winning victory over our strong opponents and making progress in the international economic war.

Furthermore, we should pay attention to the role and position of transnational companies (including multinational corporations) in international trade development. Currently, the transnational companies are entering a new era of large-scale development. According to statistics, in 1960, there were only roughly 7,000 transnational companies throughout the world. By 1983, there were already over 60,000. These transnational companies have already formed an immense network that penetrates into the various spheres of economic activity in the world. They have controlled almost 50 percent of international economic relations and trade and 30 percent of international technological transfers. The United States and Japan possess the largest transnational companies in the world. Their business focus has shifted from Europe and the Middle East to the Asian and Pacific regions. At present, they are discretely making preparation to make contacts with China.

[3 Dec 84 pp 25-27]

[Text] VII. The Tertiary Industries Which Are in the Ascendant

While the world's new technological revolution has intensified, the tertiary industries have become an important economic system. The general trend of their development is to serve the people with high quality, high efficiency and a high level of spiritual civilization and to continuously develop information-oriented and intelligence-oriented new industries. The specific trends of movement are as follows:

A. The various Western countries are carrying out reform of the system of organization and structure of the tertiary industries. The orientation of reform includes the following: 1) to adapt to the open door approach; 2) to bring about high efficiency and high results, to do one's best to reduce the intermediate links in order to accelerate commodity turnover, and to establish direct links between production and consumption. An example is the rise of optional markets (or supermarkets).

B. High production and high distribution require high consumption. In turn, high distribution and high consumption promote high production. This will bring about a benign cycle of reciprocal intensification among production, distribution and consumption.

C. The price gap is continually widened between new and old product structures and high and low service quality. Two pieces of clothing of the same quality of material may differ in price from one to several times depending on how new the style of each is. To win victory with something new and with outstanding service has become a new concept of value of the tertiary industries.

D. Using modernized information management technology, the volume of cash flow as well as the receipt and issuance of billing certificates have been greatly reduced. Purchase with credit card has become rather popular in the West. This has greatly economized social labor.

New development has taken place with the original four major pillars of the tertiary industries. At the same time, new pillars are emerging. The original four major pillars are: commerce, banking, tourism, and culture, education and public health. The present trend of development of these undertakings are generally as follows:

Commerce--is developing in the direction of fewer links, diverse channels, fast turnover, more quality goods, greater convenience for customers and service to customers. We are trying our best to reduce the links between production and consumption, adopting diverse channels of replenishing and selling goods, accelerating the speed of turnover of goods, and setting up more quality shops, restaurants and hotels, in order to adapt to high-, medium-, and low-level consumer capabilities. For instance, the charge for a high-grade suit may be four- or fivefold more than a medium-grade suit. The same goes with hotels and restaurants.

Banking--has become the most sensitive control valve in the economic development in the Western capitalist countries. Monetary capital has virtually controlled industrial and agricultural capital, and has served industrial and agricultural development. Because the economic development of the Western countries takes bank capital as the key, they are able to do 100 percent business by utilizing only 10 percent capital. Two recent trends which deserve our attention are: First, the formation of a world stock market. Almost all the large enterprises are issuing stocks to society. "Gather the funds of the people and make money from the people." The people, who are the consumers and producers, have become the investors and builders of business. Second, technology has become capital. Technology is converted into capital and deposited in the bank and invested as capital. In the last few years, many professors, technological specialists and engineers have successively become the builders and owners of newly rising industries.

Culture and education--The general trend requires us to bring forth skilled personnel and high-level skilled personnel with speed. For instance, we should convert the traditional one-time education to lifetime education, bring about enlightened education, prevent ideological stagnation, and train and select specialized skilled personnel from among the generalized skilled personnel. In training skilled personnel, we should attach importance to integrating the characteristics of different individuals, and train them to become pioneers, developers, management personnel and scientific research personnel. We should

vigorously develop secondary technological education, include computers in the curriculum for primary education, and train people in the ability to program software from early on, and bring into full play the intelligence of men.

Tourism--Tourism has become a pillar of the tertiary industries, an important component part in the economic development of all countries and a strategic step in implementing the open door policy. Tourism is both a tremendous consumer industry and a productive industry. The staff members and workers of a Western industrially developed nation spend almost half of their income on tours (including weekend vacations). Through tourism, we can promote the physical and spiritual health of the workers and enable them to remain energetic. This will raise labor productivity. Tourism is an important measure in raising society's spiritual civilization and material civilization. For young people, it is a good method to increase knowledge, foster endurance and broaden thinking. For the middle-aged, it is a factor of revitalizing one's vigor for work. For the aged, it is a good prescription for long life. At the same time, it is also an important tool to bring about mutual understanding, deepen friendship and unfold people's diplomacy among the people of different countries. For this purpose, many countries and regions have regarded the development of tourism as the point of breakthrough for economic development, and have regarded it as an economic pillar.

The new pillars which are developing in the tertiary industries and which embody great vitality are primarily the following: The information business--Information is an important strategic resource. More and more people have accepted this understanding. In recent years, the information business has developed in a thriving manner and is progressing fearlessly. Tens of thousands of information companies have emerged in the West. They are creating the conditions for a transition from the commercialization of news to an information-oriented society for man.

The consulting business--In recent years, major development has taken place in the consulting business formed by all kinds of specialists, professors, engineers, accountants and attorneys. This is a form of intelligence factory. Recently, Comrade Hu Yaobang pointed out that: "Not understanding the value created by mental labor, we will not be able to realize the four modernizations." "Ideas are money." The wealth created by important mental products is extremely great and sometimes even priceless.

Some famous economists and the Rand Corp in the United States feel that the tertiary industries, especially commerce, are the weakest and most backward link in the various economic links in China. If China does not make great effort to reform and develop its tertiary industries, it will retard the development of the primary and secondary industries. Then, the speed of China's economic development will not be fast.

VIII. The Strategic Focus of International Economic Development Has Shifted to the Regions Surrounding the Pacific Ocean

In the early 1970's, a U.S. strategic issues research center put forth a proposal on "The Necessity to Emphasize Strategic Planning for Economic Development in the Pacific Basin." This caught the attention of Nixon. The United States and Japan have conducted planning for over 10 years. The Soviet Union has also actively utilized Vietnam as the base for advancement into the regions surrounding the Pacific Ocean.

Why will the regions surrounding the Pacific Ocean become the strategic focus for international economic development in the first half of the twenty-first century?

First, the regions surrounding the Pacific Ocean consist of three immense virgin markets--China, the south Asian subcontinent, and Southeast Asia.

Second, the continental shelf along the coast of the western Pacific Ocean has an abundance of petroleum as well as an immense reserve of titanium, manganese and cobalt.

Third, the regions possess roughly 60 percent of the manpower resources and strategic resources in the world.

Fourth, China will become prosperous and may become a first-class economic power. This will take place between 2010 and 2020.

The future regions surrounding the Pacific Ocean will become the regions of contention among the United States, China, Japan and the Soviet Union. The United States is attempting to control the regions in order to maintain its leading position in the world. However, Japan is also absolutely unwilling to become "number two," and is therefore going full force in developing its economic strength to vie with the United States to see which is better.

The practice in the last 10 years has proved that, with the exception of the Vietnamese invasion of Cambodia, the political and military situation in the regions surrounding the Pacific Ocean have, generally speaking, been relatively stable. The investment by various countries in these regions is growing extremely rapidly. The average growth rate of the economy of the regions surrounding the Pacific Ocean is roughly twice as high as the Atlantic region in Europe, and the prospect for economic development is very good.

A U.S. strategic research center has made the following general estimate on our country's position and role in the regions surrounding the Pacific Ocean: Within this century, China will concentrate its energy on a domestic economic revival and will not have the strength to become engaged in the strategic planning involving the regions surrounding the Pacific. It will take 30 years of hard work before China can bring about an all-round economic revival with a per-capita output value at the level of Japan of the 1980's. This will be around the year 2015. However, the Chinese leadership has already paid attention to the economic development in the regions surrounding the Pacific Ocean

as well as China's role in this respect. With superb strategic art, China has already laid out three brilliant pieces of chess: a) Reclaiming sovereignty over Hong Kong in 1997, but maintaining the existing system for 50 more years. The implementation of "two systems in one country" is an extremely brilliant idea. b) Announcing the opening up of 14 Chinese cities along the coast. The purpose is to set up a gold coast in east Asia along the western Pacific Ocean for China. c) Realizing unification with Taiwan, which will be an added strength in the economic competition. However, the strength of these three pieces of chess must rely on other fine moves. The key lies in whether or not the economy will take off on an overall scale after 1990.

IX. The Strategic Role of An Economic Center

An economic center plays a tremendously major strategic role. But the formation of an economic center is governed and restricted by economic laws and does not come into existence through subjective will. At present, there are 10 major economic centers internationally: New York, London, Tokyo, Hong Kong, Zurich, Paris, Hamburg, Singapore, Brussels and Rotterdam. These places all enjoy certain favorable factors, such as developed transportation, quick access to information, relatively high cultural and technological standards, freedom of passage in and out, convergence of tens of thousands of businessmen, and powerful industrial bases surrounding them. Such a center has also radiated its economic strength to further regions to promote the economic development of the region within its scope.

In view of the law of economic development of a country, it is impossible and impermissible to carry out development in all areas simultaneously and go full steam ahead. Generally, one proceeds from the cities along the coast or along rivers--cities with developed communications, relatively high cultural and technological standards, and relatively good industrial foundation. One moves from the points to the lines and from the lines to all other areas to gradually form an industrial colony with the central city as the main body. Then, one can further form an economic network of large, medium and small urban colonies and eventually an economic and technological belt. A developed economic and technological belt must still be commanded by one or two central cities.

With the implementation of the open door policy of the central authorities, our country is in the process of forming the Zhu Jiang delta with Guangzhou as the center, the Chang Jiang delta with Shanghai, Ningbo and Hangzhou as the centers, the north China economic belt with Beijing and Tianjin as the centers, and southern Liaoning economic zone with Shenyang and Dalian as the centers. These economic belts which take the central cities as the core have all naturally formed economic radiation capabilities, which have been able to promote and support the economic development of the surrounding areas. Only in this way can an economic center embrace strategic force and bring its strategic role into play.

In order to promote the swift development of our country's economy and trade, we should immediately set up two economic and trade centers which embrace international standards. Historically, Shanghai has been the largest economic

and trade center in the Far East. After it comes Tianjin and Guangzhou. We should fully support these cities. Shanghai Municipality should strive to build itself into our country's largest economic and trade center and a first-class international economic and trade center with prosperous banking, flourishing industry and commerce, the convergence of tens of thousands of businessmen and a myriad of functions, which will render still greater contributions to the four modernizations in our country.

X. The Focus of Strategic Contention in International Economy Is Skilled Personnel

The contention in international economy is still a contention for market. But the focus of the contention for market has already shifted to skilled personnel. That "skilled personnel constitute the most important capital" has already become a new value concept in international economic activities. Now, the whole world is generally experiencing a strange lack of skilled personnel and a difficulty in obtaining skilled personnel. It is true that "while it is easy to obtain a thousand soldiers, it is difficult to get a fine teacher." In a Western industrially-developed capitalist country, to contend for a specialized individual, one not only will offer high pay to the individual but also spend a tremendous amount of capital to buy the entire enterprise. For instance, in order to obtain a specialist in manufacturing the super-large integrated circuit from the U.S. "silicon valley," the Phillips Company in Holland offered an annual salary of \$2 million to the individual without success. Finally, it bought the whole enterprise for \$30 million, and in so doing also got the individual.

Currently, skilled personnel development companies and skilled personnel banks are emerging internationally like bamboo shoots after a spring rain. The purpose of these companies is to discover, seize and train skilled personnel on a world scale. Currently, there are three categories of popular skilled personnel: 1) there are developer-type entrepreneur-type skilled personnel; 2) there are pioneer specialized skilled personnel; 3) there are skilled management personnel. All politicians, scientists, economists and entrepreneurs who have foresight and competence have regarded the recommendation, use, and training of and yielding of one's post to worthy personnel as their glorious duty and the greatest contribution they can offer to their country and people. The prosperity of a country, a city or even an enterprise relies first of all on the prosperity of skilled personnel. Besides strengthening the investment in mental resources, the prosperity of skilled personnel must first of all enable mobility among skilled personnel. Only through mobility can men exercise their skill to the utmost, can one's skill be brought out fully, and can worthy and skilled personnel come forth in large numbers. This will bring about fresh vitality to economic and technological development.

Some famous U.S. and Japanese scholars have viewed the question of quality and use of skilled personnel in China in the following manner: The Chinese nation is an outstanding nation which is known throughout the world for its cleverness and diligence. People of outstanding talents have come forth in large numbers. However, for some years in the past, many skilled personnel have been wasted. This tremendous loss to China and the world cannot be compensated

for! Fortunately, since the Third Plenum, one group after another of worthy and skilled individuals have been put in important positions, and they have brought new vigor to China.

* * *

The above 10 aspects are a superficial summary of the current strategic trend of international economic development. With this as the pretext, I have provided some information for study and reference in decisionmaking. In addition, I have the following propositions:

A. We must conscientiously face the two major challenges and, in the next 20 years, strive to narrow the gap between our level and the world's level to 10 to 15 years. This is a major matter of urgency related to the prosperity of impoverishment as well as the rise or decline of our country and our people.

B. In the "Seventh 5-Year Plan" period, I propose that we put the focus of our investment on transforming and reviving old enterprises. We should make a decision to slow down the building of large-scale projects which involve large investment and low and slow results. In short, we must proceed from economic results in all matters.

C. Tremendous development has taken place in agriculture in the last few years, and great bumper harvests of grain and cotton have taken place for years on end. But we must soberly recognize the fact that our per-capita grain and cotton level is not high, our ability to win victory over natural disasters is still very poor and our animal husbandry and fishery are still very backward. Furthermore, we must still make great effort to develop in depth and in scope our agriculture, forestry, animal husbandry and fishery. In short, we have merely initiated a turn for the better in agriculture. We are still awaiting improvement. We should develop in the direction of a benign cycle of "ecological agriculture." In particular, in the next few years, we should develop our animal husbandry and maritime and freshwater breeding on a larger scale.

D. We should vigorously develop the tertiary industries, and put the work on our daily agenda for planning and development. Around 1990, our tertiary industries should constitute roughly 40 percent of the gross national output. The development of the tertiary industries will involve, in many respects, the use of the strength of the masses of people. We should adopt the method of involving the state, collective and individual in this endeavor. For instance, the repairs and maintenance business and short-distance transportation can be operated mainly by individuals. This will be more favorable to revitalizing the economy.

E. We should attach importance to the value created by mental labor. I propose that we should calculate the output value of the tertiary industries, particularly from mental labor and service trades, and include that into the statistics of our GNP. Only in this way can we accurately reflect the overall outlook of our country's economy.

F. In carrying out reform and open door policies, we should further eradicate the "leftist" influence, continuously emancipate our thinking, strive to make use of the current opportune moment to do a good job of importing technology, bringing in foreign investment, bringing in information and bringing in skilled personnel, and strive to bring about a major breakthrough around 1990.

G. In light of the overall strategy to revive China, whether or not we revive the two old industrial bases of Shanghai and Liaoning is of decisive importance to the economic revival of the whole country. (In particular, Shanghai Municipality has a powerful industrial base and rich technological strength. Its position and role cannot be replaced by other places.) We should concentrate all strength on importing advanced technology into these two bases before 1990, and carry out overall transformation of one undertaking after another according to the world level of the 1980's. At the same time, we should carry out the reform of the system of organization in order to enable the enterprises to overflow with vigor. In short, in the next 10 years or so, we should build Shanghai and Liaoning into modernized commodity bases with high economic results and labor productivity under a socialist planned economy.

H. Proceeding from the overall strategy, we should fully utilize the current opportune moment to fight our way into the world and establish our country's large-scale transnational monetary, trade and joint industry-trade companies and carry out dialogue with the large-scale transnational companies internationally. The key to setting up transnational companies relies, first on policy, and second on skilled personnel. I feel that, under the prerequisite of persevering in the four principles, as long as we have a free hand in business and boldly employ developer-type skilled personnel who are familiar with international economic relations and trade, who are strategic-minded, who are good at establishing contacts with foreign businessmen and who are in their prime of life, we can, without a large capital investment by the state, create a new scene in transnational companies for our country.

I. I propose that we adopt effective measures to eradicate the bad habits left from the "cultural revolution" of punishing and suppressing people, and swiftly change the abnormal phenomenon of some units in which fine and skilled personnel are suppressed and able individuals are punished. We must bring into full play the role of the able and worthy individuals who are in their prime of life. I believe that a new era will soon arrive when large numbers of skilled personnel will come forth and large numbers of stars will shine forth from among a nation of Chinese people.

Let us, under the leadership of the party Central Committee, struggle with one heart in the next 20 years to win the gold medal for the fastest and strongest athlete in the grand competition for economic revival!

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CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

ANALYSIS OF USSR FOREIGN TRADE RESULTS, ACCOUNTING METHODS

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/Article by Liu Baorong /0491 1405 2837/ and Sun Xiufeng /1327 4423 1496/:
"An Analysis of the Economic Results of USSR Foreign Trade and an Outline of
Its Accounting Methods"/

/Text/ Since the 1970's, Soviet Russia's foreign trade has developed with considerable speed; the total amount of its import-export trade has risen from 22,079,000,000 rubles in 1970 to 127.5 billion rubles in 1983. In the period from 1971 to 1982, Soviet foreign trade increased an average of 15.1 percent annually. The continuous growth of its foreign trade has led the Soviet Union to pay more and more attention to the problem of analyzing and computing the economic results of its foreign trade. The State Planning Committee of the USSR drew up provisional methods for the calculation of the economic results of its foreign trade as early as 1968, and again in 1973 issued another set of temporary regulations on the economic results of its foreign economic relations. Thereafter, Soviet economists have continuously probed into ways of analyzing and computing the economic results of its foreign economic relations and continuously come up with new ideas. Foreign trade occupies so important a position in the foreign economic relations of the USSR because most of its foreign economic relations are brought about by its import and export trade. Analyzing and computing the economic results of foreign economic relations is mainly an analysis and computation of the results of its foreign trade. The present article will briefly introduce the main points in the analysis and computation of economic results in USSR foreign trade.

Soviet economists believe that the conditions of its foreign trade reflects a country's economic construction, science and technology, and that the computation of the foreign trade results is one side that can reflect the results of the entire national economy.

The term "results" refers to a comparison of the expenditure required for certain work as against the benefits obtained from it. The general understanding of foreign trade results is that it is the saving in social labor obtained from the import and export of commodities. Foreign trade results can be divided into direct and indirect results.

Direct foreign trade results refer to the savings in domestic social labor obtained from exporting products that are domestically produced at costs that are lower than those of international production and from importing products that are domestically produced at costs that are higher than those of international production.

Indirect foreign trade results manifest themselves in such factors which through import-export trade promote development of the entire national economy of a country, raise the country's industrial potential as well as its S&T level.

To conduct quantitative analyses of the results of foreign trade is a very important question. However, the question of how to assess the indirect results of foreign trade, has up to now remained, theoretically and methodologically, an unanswered question. On the question how to compute the direct results of foreign trade, Soviet economists have also held divergent views, but unanimity has been reached among Soviet economists on several indices to be used in the computation of direct results from foreign trade. The foreign trade results mentioned in this article refer mainly to the direct results from foreign trade.

1. Indices for Relative Results

For a long time the Soviets have been using the index of foreign exchange results to calculate the relative (comparable) results of export commodities or import commodities, according to the following formulas:

$$\begin{array}{lcl} \text{Index of} & & \text{average foreign trade price of product} \\ \text{Export} & = & \frac{\text{(in transferable rubles)}}{\text{product production cost (domestic price)}} \\ \text{Result} & & + \text{transport cost to frontier and sundry expenses (in rubles)} \end{array}$$

This index can determine under what conditions the results obtained from the sale of a product by the foreign trade organization in the international market can make up for the expenditure needed by the foreign trade organization to purchase the product, as well as for the expenses of transporting the product to the frontier and other sundry expenses incurred by the foreign trade organization.

$$\begin{array}{lcl} \text{Index of} & & \text{domestic price of imported product (in rubles)} \\ \text{Import} & = & \frac{\text{foreign exchange expended on purchase of product}}{\text{(cost + insurance + freight) (in transferable rubles)}} \\ \text{Effectiveness} & & \end{array}$$

As everybody knows, domestic prices in the Soviet Union are the plan prices fixed by the State Committee for Prices, and these prices frequently deviate from the actual value of the products. It is, therefore, extremely important to ensure that prices which show production costs come as close as possible to the necessary social expenditure. The way to compute the domestic expenditure for a product is very significant for a fairly accurate calculation of foreign trade effectiveness. The opinions of Soviet economists on this question are far from uniform. Some suggest wholesale prices without circulation tax should be adopted; others say the calculation should base on costs plus the amount of recovered investment in every year (i.e., multiplying the investment with the standard recovery coefficient).

At present, when actually calculating the indices of export effectiveness, the Soviet Ministry of Foreign Trade uses industrial wholesale prices excluding circulation tax for the production labor expenditure for most commodities.

产品工业批发价格的构成 (1)

I 企业批发价格 (2)			II 销售费用和利润 (成本的1-2%) (9)		III 流通税 (10)
1. 成本 (3)			2. 企业利润 (计划成本的10-15%) (8)		
a. 生产资料价值 (4)		b. 必需品价值 (工业生产人员的工资) (7)			
消耗的劳动对象 (原料、材料、燃料能源) 的价值 (5)	消耗的劳动对象的价值 (折旧) (6)				

Key:

1. Structure of industrial wholesale prices of products
2. Wholesale price of enterprise
3. Costs
4. Value of means of production
5. Value of the expended objects of labor (raw materials, other materials, fuel and energy sources)
6. Value of the expended means of labor (depreciation)
7. Value of necessities (wages for industrial production personnel)
8. Profits of the enterprise (10 to 15 percent of the plan costs)
9. Marketing expenses and profits (1 to 2 percent of costs)
10. Circulation Tax

The suggestions of some economists seem to be justified theoretically, but meet with many difficulties in practical application and are, therefore, currently not acceptable.

When computing the import effectiveness indices, the principle for the domestic pricing of the imported commodities is as follows:

for imported raw and processed materials--according to domestic industrial wholesale prices for similar materials produced domestically;

for consumer goods of daily use--according to domestic retail prices for similar goods produced domestically minus commercial rebates;

for imported machinery and equipment, there are two methods of pricing:

(1) When importing machinery products from CEMA or other socialist countries, those that conform in their technical and economic features to current Soviet standards and technological specifications shall be priced according to the wholesale prices promulgated by the Soviet Union on 1 January 1982. (2) All

other machinery items, whether imported from socialist or capitalist countries, shall be priced according to the c.i.f. prices of the contracts.

The relative indices of results are also called the import-export foreign exchange effectiveness indices. They enable the determination of how many transferable rubles the expenditure of 1 ruble of export production can recover and how many import commodities of how much value the state can buy with the 1 transferable ruble. Because different index numerators and denominators (rubles and transferable rubles) are used in the foreign exchange effectiveness indices, it is called a relative effectiveness index.

2. Absolute Effectiveness Index

After computing the foreign exchange effectiveness index for a large number of import-export commodities, it is possible to compile a comparative effectiveness table. For instance, 10 types of Soviet export commodities may be listed as follows on the basis of the computation:

Commodities:	1	2	3	4	5	6	7	8	9	10
Export Foreign										
Exchange Effect.	0.50	0.28	0.25	0.21	0.20	0.14	0.12	0.11	0.10	0.09
(transf. ruble/ ruble)										

The median in these 10 foreign exchange effectiveness indices is 0.20 transferable rubles/rubles. From the above table we can derive this conclusion: since the exports of commodities 1-5 show higher than average foreign exchange effectiveness, it would be permissible to reduce the exports of commodities 6-10 which show foreign exchange effectiveness below the average.

However, theoretically, it could be argued that there is no profit in the export of all the commodities listed in the above table, including commodities 1-5, because none of the foreign exchange effectiveness indices can illustrate the export (import) effectiveness of the said commodity. When analyzing foreign trade effectiveness, we must, therefore, not only use the tools of the analysis of relative effectiveness--the foreign exchange effectiveness indices, but must also use the indices that reflect the absolute effectiveness of imports and exports. Drawing support from the absolute effectiveness indices can help determine whether the various imported or exported commodities save national labor, and if so, how much absolute value is being saved. The method to compute the absolute effectiveness index is as follows:

$$\begin{array}{lcl} \text{Index of} & & \text{Index for} \\ \text{Absolute} & = & \text{rate of foreign} \\ \text{Export} & & \text{exchange settlement} \\ \text{Effectiveness} & & \end{array} \times \frac{\text{Foreign exchange receipt (transf.R)}}{\text{domestic expenses for the commodity (in R)}}$$

The foreign exchange rate for settlement, generally speaking, is the actual value of the foreign exchange obtained in the market of a certain other country. Using this figure to multiply the foreign trade price of the export commodity will yield a product that is the total amount of economic receipts obtained

from the sale of a commodity in the international market. The absolute export effectiveness index is, therefore, a comparison of the total receipt from the export of a commodity with the actual expenditure needed in the national economy to manufacture that particular commodity. If the absolute export effectiveness index of a commodity is higher than or equal to 1, its export is justified. If it is smaller than 1, there is not only no additional saving in the export of that commodity for the national economy, but it may even amount to a waste. For example: the Soviet Union exports commodity A to the CEMA countries with a foreign exchange effectiveness index of 0.9 transferable rubles/rubles, and the exchange settlement index is 1.3 ruble/transferable ruble; on the other hand, the export to a capitalist country shows a foreign exchange effectiveness index of 0.59 transferable rubles/rubles, and the index for the foreign exchange settlement is 1.5 rubles/transferable rubles. According to the formula for computing the absolute effectiveness index for the export of commodity A by the Soviet Union to the markets of the CEMA countries is 1.17 (namely 1.3×0.9), while on the other hand export to the market of the capitalist country will show an absolute effectiveness index of 0.9 (1.5×0.59). This explains that the saving from exporting commodity A to the CEMA countries is 1.17 times the economic expenditure that would be domestically used for that commodity. In actual fact the savings would manifest themselves in the ability of the state to use the foreign exchange obtained from the export to buy many more import commodities. If commodity A would be exported to the market of a capitalist country, the domestic expenditure would show up larger than the domestic manufacturing costs of the imported commodities that could be bought with the foreign exchange receipts, and under these conditions there would be no additional savings for the national economy.

From the computation of the absolute export effectiveness index we can go one step further to obtain a formula for the calculation of the amount of export effectiveness of a certain commodity:

$$\begin{array}{lcl} \text{Amount of Absolute} & & \text{export trade price} \times \text{rate of foreign exchange} \\ \text{Export Effectiveness} & = & \text{settlement} - \text{domestic manufacturing cost of commodity} \end{array}$$

For instance, if the foreign trade price of one unit of a commodity exported by the Soviet Union to a certain country is 20 transferable rubles, the exchange rate for the settlement is 1.3 rubles/1 transferable ruble, and the domestic expenditure connected with the exportation is 22 units of domestic currency (rubles), the calculation is as follows:

$$\text{Amount of absolute effectiveness} = 20 \times 1.3/1 - 22 = 26 - 22 = 4$$

This calculation shows that exporting one unit of the said commodity would save the state 4 units of the domestic currency unit.

The analysis of import effectiveness requires the calculation of absolute import effectiveness.

$$\begin{array}{lcl} \text{Amount of Absolute} & & \text{domestic manufacturing cost of imported commodity} \\ \text{Import Effectiveness} & = & - \text{foreign exchange price of imported commodity} \\ & & \times \text{rate of foreign exchange settlement} \end{array}$$

The relative effectiveness index and the absolute effectiveness index are two import indices for the evaluation of foreign trade results. Of course, for a more penetrating analysis it is still necessary to work out other indices for the computation of foreign trade effectiveness.

3. Net Import-export Effectiveness Indices

When analyzing the main factors that influence import-export effectiveness, indices are often used that reflect a part of the production expenditure for products that are substitutes for the exported or imported items, the most important of these indices is the net import-export effectiveness index. The net import-export effectiveness is stated as opposed to the gross import-export effectiveness. It denotes the effectiveness of processing and production expenditure at the very last production process of a commodity, the formula for its calculation is as follows:

$$\begin{array}{c} \text{(1)} \\ \text{商品净} \\ \text{出口效} \\ \text{益指标} \end{array} = \frac{\begin{array}{ccc} \text{(2)} & \text{(3)} & \text{(4)} \\ \boxed{\text{商品外贸价}} & \boxed{\text{以世界市场价格}} & \boxed{\text{属于加工}} \\ \boxed{\text{格(F O B)}} & \boxed{\text{表示的已消耗}} & \boxed{\text{阶段的外}} \\ & \boxed{\text{原料的价值}} & \boxed{\text{汇收入}} \end{array}}{\begin{array}{ccc} \boxed{\text{以国内价}} & \boxed{\text{单位商品}} & \boxed{\text{以国内价格}} & \boxed{\text{加工}} \\ \boxed{\text{格表示的}} & \boxed{\text{国内运费}} & \boxed{\text{表示的已消}} & \boxed{\text{费用}} \\ \boxed{\text{商品成本}} & \boxed{\text{和杂项开}} & \boxed{\text{耗原材料的}} & \\ & \boxed{\text{支}} & \boxed{\text{价值的}} & \end{array}} \\ \text{(5)} & \text{(6)} & \text{(7)} & \text{(8)} \end{array}$$

Key:

1. Net export effectiveness index of commodity
2. Foreign trade price of commodity (f.o.b.)
3. Value of raw materials consumed at world market prices
4. Foreign exchange receipts as part of the processing stage
5. Cost of commodity at domestic price
6. Domestic transportation and sundry expenses of unit of commodity
7. Value of raw and processed materials consumed at domestic prices
8. Processing expenses

The net export effectiveness index is not a reflection of the whole labor result of all that was expended on the domestically produced commodity, but only the result of processing expenditure expended on processing at the stage of raw material processing. Using this index it is possible to effect analyses of the export commodity at every stage of its production. As a result, it would be possible to discover and correct backward links in production and to determine at what stage in the processing of raw materials exporting would be most beneficial for the state, such as whether to export coke, pig iron or rolled steel materials, or whether to export cotton, cotton yarn or textiles.

However, because the net export effectiveness index only reflects the effectiveness at the final stage of the raw material processing, it cannot show the whole effectiveness of the export of a certain commodity. Practical experiences in foreign trade have shown that in a situation where effectiveness was very high in the final stage of production of a certain commodity while preceding production stages had been unprofitable, even though the net export effectiveness

index of the commodity may be very high, this commodity could still possibly be unprofitable. It is, therefore, necessary when making use of the net export effectiveness index to pay attention to such kinds of conditions. Certain East European countries, such as Hungary, have in recent years made use of net export effectiveness indices on a very comprehensive scale when undertaking real economic analyses in enterprises, departments and throughout the entire national economy. Whenever domestic technological conditions permit, certain commodities that have to be imported, may, to save foreign exchange, not be imported as finished whole products, but imported in the state of raw materials or semi-processed materials for final domestic processing. To gain clarity as to at what stage of processing the importation would be profitable, whether import of raw materials or semiprocessed material would be more advantageous, we must not rely in our decision on mere estimation but must utilize the computation of net import effectiveness indices, of which the formula is:

$$\begin{array}{c}
 \begin{array}{c} (1) \\ \text{商品净} \\ \text{进口效} \\ \text{益指标} \end{array} = \frac{\begin{array}{c} (2) \quad \boxed{\text{以国内价} \\ \text{格表示的} \\ \text{商品成本}} - \begin{array}{c} (3) \quad \boxed{\text{以国内价格表} \\ \text{示的已消耗} \\ \text{原材料价值}} \\ (4) \quad \boxed{\text{最后一个生} \\ \text{产阶段的加} \\ \text{工费用}} \end{array} \\ \begin{array}{c} (5) \quad \boxed{\text{商品外} \\ \text{贸价格}} - \begin{array}{c} (6) \quad \boxed{\text{以世界市场价} \\ \text{格表示的已消耗} \\ \text{原材料的价值}} \\ (7) \quad \boxed{\text{最后一个生产阶} \\ \text{段国内加工原料} \\ \text{外汇节约额}} \end{array} \end{array}
 \end{array}$$

Key:

1. Net import effectiveness index of commodity
2. Cost of commodity at domestic prices
3. Value of raw materials consumed at domestic prices
4. Processing expenses at the final stage of production
5. Foreign trade price of commodity
6. Value of raw materials consumed at world market prices
7. Amount of foreign exchange saved by domestically processed raw materials at the final production stage

Obviously, the smaller the absolute value of this index is, the more profitable will it be to organize processing domestically.

4. Comprehensive Export-import Effectiveness Index

In the area of analyzing export-import effectiveness, we have discussed above the methods of computing several kinds of important effectiveness indices. We shall now take a look at the comprehensive export-import effectiveness index:

$$\begin{array}{c}
 \text{Comprehensive} \\
 \text{Export-Import} \\
 \text{Effectiveness} \\
 \text{Index}
 \end{array} = \frac{\begin{array}{c} \text{Domestic price of each} \\ \text{imported commodity} \\ \text{(incl. transport. and} \\ \text{sundry expenses)} \end{array} \times \begin{array}{c} \text{Quantity of} \\ \text{commodity} \\ \text{imported} \\ \text{each time} \end{array}}{\begin{array}{c} \text{Domestic price of each} \\ \text{exported commodity} \\ \text{(incl. transport and} \\ \text{sundry expenses)} \end{array} \times \begin{array}{c} \text{Quantity of} \\ \text{each item of} \\ \text{exported} \\ \text{commodity} \end{array}}$$

This kind of index is also called a foreign trade effectiveness index. It is a coefficient. In a situation of an import-export balance in the foreign exchange accounts, this index shows that the sum total of required social labor for import commodities can to the greatest degree exceed the total domestic production expenses that are incurred for the export commodities. If the foreign trade effectiveness index is more than 1, the state will be able to obtain additional net income in its foreign trade. If the said index is equal to 1, the state will by means of its foreign trade only be able to satisfy the needs of domestic production and markets, solve the specific needs of the various branches of the national economy, but will not be able to obtain additional income. If the said index is smaller than 1, the state will not only be unable to gain additional income from its foreign trade but, on the contrary, lose some needed social labor, and will have some of the national income of the state flow into another country. In a situation of import-export balance, it is possible by deducting from the total amount of social labor required for the imported products (not manufactured domestically) the total domestic production expenditure that is connected with the exports, to obtain the amount of foreign trade effectiveness. The formula is as follows:

$$\begin{array}{lcl} \text{Amount of} & & \text{Total of (domestic price of each item of export commodity} \\ \text{Foreign} & & \text{x quantity of each item of import commodity)} \\ \text{Trade} & = & - \text{total of (domestic price of each item of export commodity} \\ \text{Effectiveness} & & \text{x quantity of each item of export commodity)} \end{array}$$

The index of foreign trade effectiveness and the calculation of the amount of foreign trade effectiveness constitute comprehensive evaluation of the state's entire foreign trade and of the foreign economic relations as realized in the country's commodity exchanges. It is the task of the departments in charge of planning policy decisions to select foreign trade programs with large foreign trade effectiveness indices and large amounts of foreign trade effectiveness, so as to have the state gain the largest possible results from its foreign trade.

The rise or fall of foreign trade effectiveness is not determined by one factor. Changes in the level of contract prices and in the commodity mix (i.e., changes in the proportions of commodities of different effectiveness), changes in the structure of consumption and territories of the production labor of the commodities (i.e., the geographic direction of the foreign trade), changes in the conditions of trade, etc., all these can have an important impact on the entire foreign trade effectiveness. The formula for the index of change in foreign trade effectiveness is:

$$\begin{array}{lcl} \text{Index of} & & \text{Average foreign trade price index x index of change in} \\ \text{Change in} & & \text{commodity variety x reciprocal figure of production expenditure} \\ \text{Foreign Trade} & = & \text{index x index of change in commodity composition x index of} \\ \text{Effectiveness} & & \text{changes in territorial composition} \end{array}$$

Of course, a specific analysis and calculation has to take place for each index in this formula, and each index may also be influenced by many factors during the actual computation. For instance, if the change in the composition of the commodities is calculated separately according to current prices and according to unchanged prices, the results may differ widely. This is particularly true

since the 1970's, when world market prices for fuel, energy sources and raw materials rose steeply. Taking machinery and equipment as example, if calculated at current prices, the share of machinery and equipment in the total value of Soviet exports dropped from 21.5 percent in 1970 to 12.9 percent in 1982. However, if calculated at unchanged prices, we get quite a different result, namely, that the share of machinery and equipment in the total value of Soviet exports rose from 21.5 percent in 1970 to 22.7 percent in 1982. Conditions of this nature also appear when analyzing the export structure of CEMA countries; calculated at current prices the share of machinery and equipment dropped from 23.8 percent in 1970 to 17.5 percent in 1982; if calculated at unchanged prices, this share increased from 23.8 percent in 1970 to 28.4 percent in 1982. This shows that changes in commodity structure calculated at current prices cannot reflect accurately the real conditions of changes in commodity structure.

When calculating indices of foreign trade effectiveness, it is, therefore, necessary to effect a conscientious computation of each of the change indices in the formula and eliminate falsehoods in order to truly reflect the actual condition of foreign trade effectiveness. Due to the limited space available, this article will give no further detailed introduction to the analysis and calculation of the various indices in the above formulas.

It is necessary to point out that Soviet economists are still debating theories on the question of computing trade effectiveness. Furthermore, because of the serious discrepancies between the Soviet Union's domestic prices and world market prices, the calculation of the various indices in connection with foreign trade effectiveness is beset with many difficulties and problems. They are still in a continuous process of studying and probing in this field of endeavor. The computing and analyzing methods currently being used may possibly serve us as an enlightenment, broadening our thinking and helping us in perfecting our calculations and analyses concerning foreign trade effectiveness.

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CSO: 4006/430

TAIWAN

ECONOMICS MINISTER STRESSES FREE ECONOMY

OW210317 Taipei CNA in English 0232 GMT 21 Mar 85

[Text] Taipei, 20 March (CNA)--Economic Affairs Minister Lee Tan-hai, who assumed his new office Wednesday morning said that this country, under a free economic system, will gradually lower its trade protection, relax import controls and emphasize functioning of market performance to boost the competitive power of domestic industries in the world market.

In his first press conference as economic minister, Lee said that over protection would only invite the industries here to rely on government assistance. In the future, he said, the government will thoroughly carry out the policy of economic liberalization, internationalization and revamping of the industrial structure so as to enable the industries in this country to have the capability in meeting with the fierce competition from the trading countries.

In the past, this country has paid too much attention to the development of industry. But now, he continued, the government will also emphasize the sound operation of management systems, making both industry and business operations work side by side.

With regard to the future operation of the national corporations, he said that the government will continue to streamline the poor management of some companies, while on the other hand, diversify the operations of others to reduce the risk of concentrating too much management emphasis in any single corporation.

As for dealing with economic disputes, such as the problem of the Cathay Plastic Industrial Company, the government will invoke the existing laws and regulations to settle the disputes. There will be no favoritism or discriminatory bias allowed on the behalf of any business or industrial interest.

In the meantime, the new economic minister also discussed the exchange rate between the new Taiwan dollar and the U.S. currency, saying that his ministry will weigh opinions pro and con regarding the issue.

Lee noted that as the NT dollar continues to remain a strong currency, exporters here feel a heavy pressure to get their products exported and recommended the government should devalue the NT dollar to facilitate export competition.

However, he said that opinions on the affects of a devalued NT dollar appear to be very complicated and his ministry has directed the Board of Foreign Trade to set up a special task force to evaluate the opinions and suggestions proposed by specialists.

CSO: 4020/155-F

15 April 1985

TAIWAN

BRIEFS

CONCERN, FOREIGN INVESTMENT DECREASE--Taipei, 23 March (CNA)--Foreign and overseas Chinese investment totaled U.S.\$56.60 million in the first 2 months of this year, a decrease of 13.03 percent compared to the same period last year, according to the Investment Commission of the Ministry of Economic Affairs. The commission said that the decline shows that measures should be taken to attract more investment. Investment by overseas Chinese was U.S.\$4.01 million while that by foreign nationals was U.S.\$52.6 million. New investment accounted for 73.97 percent, reinvestment for 26.03 percent. Electronic and electrical products, at 27.93 percent, accounted for the greatest amount of foreign investment, the commission said. These were followed by chemical products, accounting for 27.17 percent. The total amount of foreign investment reached more than U.S.\$550 million last year, the commission reported. The growth rate was about 40 percent. The commission said it expected that it will not be easy to reach the same level this year. [Text] [Taipei CNA in English 0946 GMT 23 Mar 85]

TRADE DIVERSIFICATION URGED--Taipei, 23 March (CNA)--This nation must rectify the current trend of overconcentrating its trade with the United States and Japan, otherwise, the nation's economy might encounter serious setbacks in the future, said the Directorate General of Budget, Accounting and Statistics [DGBAS] Under the Executive Yuan. According to statistics compiled by the DGBAS, the nation's exports to the United States and Japan in 1984 constituted 59.3 percent of the total exports during the year. This is a worrisome trend, said the DGBAS. Overconcentration of markets in the U.S. and Japan, the high value of N.T. dollars against major European currencies, as well as protectionism in many European nations have made it difficult for this nation to increase exports to Europe or diversify its markets, the DGBAS pointed out. In 1984, this nation enjoyed a surplus of U.S.\$9.8 million in trade with the U.S., and because of the large trade gap, the U.S. may impose more restrictions on imports from this nation in the future, the DGBAS said. As a result, the competitiveness of the nation's products in the U.S. will also decline, it added. As to the trade with Japan, this nation registered a deficit of U.S.\$3.2 billion in 1984, and this indicates that the nation overrelies on imports from Japan. Because of the government's encouragement of imports, it is expected that the deficit in trade with Japan will increase this year, the DGBAS said. [Text] [Taipei CNA in English 0302 GMT 25 Mar 85]

CSO: 4020/155-F

HONG KONG MEDIA ON CHINA

PRC CLOSING ENTERPRISES RUN BY PARTY, GOVERNMENT

HK200829 Hong Kong MING PAO in Chinese 20 Mar 85 p 5

[Special Dispatch from Beijing: "State Industry and Commerce Administration Points Out Over 10,000 Enterprises Being Run by Party and Government Organs Must Be Banned by End of June"]

[Text] The State Industry and Commerce Administration requires industry and commerce administrative departments at all levels to check the businesses run illegally by party and government organs or by party and government cadres who profiteer by speculating in goods in short supply and in great demand and to strengthen market control and management in order to ensure the smooth development of our overall economic reform.

At a national meeting of chiefs of industry and commerce administrative departments, which ended on 10 March, Ren Zhonglin, director of the State Industry and Commerce Administration, pointed out that according to rough statistics in 25 provinces, municipalities, and autonomous regions, the number of organizations engaged in purely commercial business and run by party and government organs or cadres exceeded 16,000. So one of the main tasks for the industry and commerce administrative departments in the first half of this year is to check this kind of business.

Ren Zhonglin said: "When checking these businesses in an all-round way, the industry and commerce administrative authorities should resolutely ban those which have been profiteering in such illegal ways as abusing powers in the handling of business, reselling goods at unfairly high prices, and practicing fraud, and should revoke their business licences and confiscate their illicit incomes. If they are discovered to have evaded taxes, they must pay all the taxes they have evaded and a fine should also be imposed on them. Enterprises engaged in industrial production, transportation, technological consulting, and service trades are allowed to continue their operations, but their operations must comply with the relevant regulations laid down by the CPC central leadership and the State Council and must follow a correct line. The personnel and financial affairs, as well as the fixed and liquid assets of these enterprises, should be handled independently and be disassociated from the party and government organs. All profits and losses should be solely borne by the enterprises themselves.

Ren Zhonglin pointed out: "During the recent period, some units and individuals have engaged themselves in such speculative business as reselling automobiles, steel products, color TV sets, and other important production goods and consumer goods in great demand and in short supply so as to make exorbitant profits. Some units and individuals have even sold distribution quotas and certificates for taking delivery of goods or have disturbed the market order by buying long and selling short or by practicing fraud. Their actions have also impaired the socioeconomic order and harmed the interests of the state and the consumers."

He said: "The industry and commerce administrative departments at all levels should join hands with pricing, taxation, banking, and auditing departments under the leadership of local governments to check the illicit activities of speculating in important production materials and consumer goods in great demand and in short supply and to severely punish speculators according to law in order to correct the new irregularities."

Ren Zhonglin stressed: "All industrial and commercial enterprises owned by the state or by collectives will no longer be allowed to sell goods whose prices are fixed by the state at prices which are any higher, to sell or resell commodities, quotas, contracts, and certificates for taking the delivery of goods that are subject to state planned supply, to resell goods in short supply by buying them from local retail shops, or to sell certificates for obtaining goods under planned supply. Only state commercial and supply departments and the production units have the right to handle wholesale business with regard to important production materials and consumer goods in great demand and in short supply, and no collectives or individuals are allowed to handle these goods. No brokers are allowed to profit from their go-between activities in the handling of these goods. All goods whose prices are fixed by the state must be sold at those state-fixed prices, and no one is allowed to reap any extra gains from dealing in these goods."

CSO: 4006/484-F

HONG KONG MEDIA ON CHINA

GUANGXI PORT, CITY DEVELOPMENT STUDIES COMMISSIONED

HK110709 Hong Kong SOUTH CHINA MORNING POST in English 11 Mar 85 BUSINESS NEWS Supplement p 1

[Article by Olivia Sin]

[Text] China's southwest Guangxi Province has appointed a local consultancy firm to prepare a long-term economic development plan for its strategic Beihai City.

The firm, Xinan (China) Enterprises Ltd, has in turn teamed up with two international planners, SRI International and Bechtel Inc., to carry out the job.

Facing the Beibu Gulf in southern China, Beihai is one of the 14 coastal cities open to foreign business.

To speed up the development of the backward Beihai City, Peking has decided to give more preferential treatment to investors there than in other coastal cities.

A visiting Guangxi official, Mr Xie Zhixiong, told BUSINESS NEWS that apart from Beihai, its neighbouring port of Fangcheng will also be opened to business.

Mr Xie, director of Guangxi's Planning Commission, said Beihai will be developed into a large-scale industrial district, similar to the Shekou Industrial Zone in Shenzhen.

Beihai and Fangcheng are not only important to Guangxi, but also serve as major ports for the nearby landlocked provinces of Yunnan and Guizhou, he said.

Guangxi officials believe that improving the transport links of Beihai and Fangcheng will help stimulate the development of China's southwestern region.

Xinan Enterprises' managing director, Mr Y.C. Chiang, said his job is to find out the best economic and industrial development model for Beihai and Fangcheng.

In outlining the potential of the two cities, he said it is important to study the supporting facilities of Qinzhou City, which is located midway between Beihai and Fangcheng.

The initial study is expected to take 6 months to complete, he said.

Apart from SRI International and Bechtel, Xinan has enlisted the help of Hong Kong-based Urbis for the study.

The 275 square km Beihai City has a population of only 168,000. Its port facilities can only accommodate vessels of up to 3,000 tons and handles less than a million tons of cargo a year.

Recognizing the transport problem of Beihai, Peking has decided to allocate funds to Beihai for the construction of a deep water port and a domestic airport.

The airport, scheduled for completion by the end of this year, will link Beihai with Canton, Shenzhen and Guilin.

Work on two 10,000-ton berths in Beihai to improve its cargo handling capacity will begin next year.

Fangcheng Port, to the west of Beihai, has seven berths which can handle vessels of 10,000 tons and more.

When a railway link linking Fangcheng and Nanning (capital of Guangxi) is completed next year, Fangcheng will become the major export outlet for China's southwest provinces.

Qinzhou City, rich in grain, fruit and other agricultural produce, will serve as a hinterland for Beihai to develop food processing and other related light industries.

The province plans to stage an international investment symposium in Guilin, a scenic city in Guangxi, at the end of next month.

CSO: 4020/157-F

HONG KONG MEDIA ON CHINA

PRC BANK TO TIGHTEN CREDIT TO 'LAME DUCK' BUSINESSES

HK210709 Hong Kong TA KUNG PAO in English 21 Mar 85 p 6

[Text] Lame duck businesses will get little or no credit this year, said the Industrial and Commercial Bank of China's regional managers' conference in Beijing on 13 March.

This refers to those with poor management, long-standing losses or unmarketable products.

The bank is tightening credit to streamline the economic reforms now spreading from rural to urban areas.

It will concentrate on absorbing deposits, recovering loans and lending money to those whose products are demanded by the market.

Priority will be given to supporting production of high-quality marketable light industrial products and textiles, medium- and high-grade consumer durables and profitable exports.

It will also support scientific research of new products.

No money will be lent to enterprises run by government organizations and wholesalers of productive resources and short-supply consumer durables.

Funds tied up in finished products and liquidation funds will be carefully analysed, and balance sheets closely scrutinized to prevent false financial reports and the use of bank loans for consumption.

Prospective borrowers must have sufficient funds of their own.

Special-purpose funds must be strictly segregated from production funds.

A socialist monetary system is being set up centered on the People's Bank of China and the specialized banks, an official said, condemning the recent trend of inadequately secured open-ended loans and the competitive slashing of interest rates to attack borrowers.

It was vital, he said, to keep the amount of money in circulation within the bounds of the actual needs of the economy and to use it more effectively so as to stabilize market prices, maintain living standards of the people and successfully reform the economy.

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HONG KONG MEDIA ON CHINA

SHENZHEN CURRENCY BLACK MARKET UNAFFECTED BY STATE DECISION

HK200657 Hong Kong SOUTH CHINA MORNING POST in English 20 Mar 95 p 1

[Article by Louis Liu]

[Text] Peking may have announced restrictions on the use of foreign currency and foreign exchange certificates (FEC) in China, but in Shenzhen yesterday, it was business as usual.

An SCM Post team visiting the Special Economic Zone found money changers active near the railway station and at the city centre.

These were working in sight of public security officials, and offered 65 to 70 yuan for HK\$100. The official rate is 36.49 yuan to \$100.

At least 50 young men and women clustered around the railway station offering to buy Hong Kong dollars.

When a deal was struck, the seller followed the buyer to a convenient place where notes changed hands.

Hawkers still preferred the high-priced Hong Kong dollar to local yuan despite State Council orders banning the use and exchange of foreign currencies and FECs.

Asked whether they still accepted dollars, one hawker said: "Why not? The mountains are high, and the emperor is far away."

Business was brisk but there were more Hong Kong people than locals out shopping, and those paying in dollars got the better deal.

Some Hong Kong housewives were so anxious to take advantage of the strong Hong Kong dollars they were prepared to spend an hour to clear immigration and customs to shop for vegetables.

There was a heavy trade in meat and herbal medicine, and the deadline on duty-free alcohol announced in the budget speech has brought a last minute rush for duty-free alcohol which would become subject to import duty from next month.

In restaurants menus are priced on FEC and all the luxuries available in the SEZ carry FEC price tags.

But the Hong Kong dollar can get you all there is to buy in Shenzhen, while the yuan cannot do much.

Even taxi drivers want to be paid in dollars, or FECs.

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HONG KONG MEDIA ON CHINA

PRC'S FOSHAN MAY ISSUE BONDS IN HONG KONG TO RAISE FUNDS

HK210715 Hong Kong SOUTH CHINA MORNING POST in English 21 Mar 85 BUSINESS NEWS Supplement p 1

[Article by Suzanne Sim]

[Text] Foshan in China's Guangdong Province intends to issue bonds in Hong Kong to raise funds for its modernisation programme.

The Mayor of Foshan, Mr Yu Fei, said yesterday its economic planners are studying the Hong Kong market and will present a full report on the bond issue by the end of the year.

Meanwhile, the Foshan Provincial Trust and Investment Corp is preparing to launch its second renminbi-denominated bond issue in the city.

According to Mr Yu, the first issue of 25 million renminbi (about HK\$75 million) bonds was made in June and interest was paid in January.

He said the second issue, amounting to about 50 million renminbi, will be launched in the next 3 months.

The bonds will be denominated in 100, 500 and 1,000 renminbi and be redeemable in 1 and 3 years.

But he would not specify what interest rate these bonds would carry except that it may be lower than the first issue.

The first issue carries 12.9 percent interest rate for 1-year bonds and 15 percent for 3-year bonds.

Mr Yu is here to attract foreign investment for Foshan.

Speaking at the inauguration of the Foshan Development Co, Ltd, in Hong Kong he said Foshan intends to attract at least U.S.\$200 million in foreign investment annually.

He said his delegation has brought details of 120 projects Foshan needed.

A seminar to introduce the projects will be held from today until 30 March, during which Mr Yu hopes to sign up U.S.\$430 million worth of project contracts.

The delegation has also brought U.S.\$100 million worth of products, such as textiles, plastics, ceramics and other light industrial goods, for sale during the trade/seminar sessions.

Since 1979, 11,000 contracts totalling U.S.\$360 million have been signed between Foshan and foreign investors.

Of these, Mr Yu said, 80 percent were with Hong Kong.

CSO: 4020/156-F

HONG KONG MEDIA ON CHINA

BRIEFS

CANADA GETS BOC AFFILIATE BRANCH--Nanyang Commercial Bank, an affiliate of the Bank of China (BOC) group, is to open a representative office in Canada soon, according to banking sources. This is another step taken by the bank to pursue the goal of internationalisation following the establishment of its first overseas branch office in San Francisco in February 1983. Of the 13 affiliates of the BOC group, Nanyang Commercial is taking the lead in branching out of Hong Kong. Banking sources have said the bank obtained approval for the setting up of the representative office from the Canadian authorities last November, and two senior staff will be sent there to head the office. Nanyang Commercial is regarded as one of the more aggressive affiliates of the BOC group. During the past 5 years, the number of bank branches has increased to 42 from 21, while staff has grown to 1,200 people from 800. The bank's issued capital has increased to HK\$400 million from \$100 million, and its reserves to \$260 million from \$50 million. Total assets have increased to \$15.6 billion from \$4.2 billion. BOC now has branches in London, Paris, Luxembourg, New York and Singapore. A branch is due to open in Australia soon. [Text] [Hong Kong SOUTH CHINA MORNING POST in English 20 Mar 85 BUSINESS NEWS Supplement p 3]

CSO: 4020/156-F

HONG KONG ECONOMIC TRENDS

CHINESE BANKS BECOME MORE ACTIVE IN HONG KONG

Hong Kong TA KUNG PAO in Chinese 4 Jan 85 p 12

[Article by Li Weicheng [7812 0251 2052]: "Chinese Banks in Hong Kong Speed up Activities"]

[Text] Over the past year, Chinese banks have become even more active in the Hong Kong financial and banking markets and the local Chinese and overseas banks have also strengthened their operations departments that deal with China. They hope they can benefit at a time when economic development in China is forging ahead. It is believed that this situation will be sustained and will become the main development trend of local banking institutions in the days to come.

The main commercial activities of Chinese banks in the past few months can be classified roughly into the following categories: 1) Direct investment. The Hong Kong branch of the Bank of China announced the construction of a new building to be used as its new headquarters. This building has 70 stories and the construction cost is estimated at HK\$800 million to 1 billion. 2) Cooperation with overseas commercial establishments to organize companies to expand their scope of business. For instance, the Zhong-Nan Bank and the Xin-Hua Bank have set up a Jia-Bai-Li Investment Company, Ltd., in cooperation with a commercial firm in Hong Kong to develop the sale of electrical products and furniture by applying the installment payment method. The Bank of China group has also set up a Xun-Da Electrical Service Company, Ltd., in cooperation with 16 other banks to experiment with the practice of automatic transfer of accounts to make payments. 3) Fund raising to support development projects carried out in China. 4) Direct loans. The Bank of China group has extended a loan of HK\$300 million to the subway company and has revealed that the group will continue to expand its industrial loan business. 5) Arrangement of business talks for the purpose of promoting the economic development of mainland China. The symposium held in November 1984 on making investments in the coastal cities that are open to the outside world has been an example which has attracted people's attention. It may be said that the recent development of Chinese banks has proved to be more active and more aggressive than in the past.

This is only the beginning of the Chinese banks' efforts to strengthen their business activities in Hong Kong. In fact, if the open-door economic policy can continue firmly from now on in China, it will need to raise more and more funds to support the various capital construction projects or even the development of large-scale industries in various places. As a current international

financial and trade center which occupies a favorable position both in location and in language, Hong Kong has every reason to believe that China will make greater use of the financial market of Hong Kong. Aside from direct business development, Chinese banks will cooperate with other banks and financial institutions.

At the same time, both the Chinese and foreign banks have been steadily expanding their Chinese operations departments in order to develop the huge market of China, which has great potential. The areas which the overseas banks are at present interested in are mainly as follows: First, trade loans in reference to China. The exports and imports of China this year total approximately U.S. \$40 billion. It is estimated that this amount will be increased to more than U.S.\$50 billion next year. Therefore, it is possible that the amounts of these trade loans to be extended to China next year will be increased by more than 20 percent. Aside from the fact that during the 3rd quarter of this year China has surpassed Great Britain to become the second largest export market of Hong Kong, there will be even greater opportunities for banks to extend direct trade loans in Hong Kong.

Second, foreign banks are very much interested in extending group credits to China. China is inclined to utilize foreign commercial credits to develop its giant capital construction and energy projects. The Export-Import Bank of Japan signed a memorandum with the Bank of China this month to extend a loan of around U.S.\$2.4 billion to help develop the petroleum and coal industries. All these are projects which have attracted people's attention.

Third, China is inclined to issue bonds or commercial papers in Hong Kong in order to raise funds to help promote inland development. The China International Trust and Investment Company, Ltd., may float bonds in the amount of HK\$200 million in Hong Kong while foreign banks may serve to underwrite these bonds.

Fourth, to promote industrial development in China, foreign banks may also introduce overseas business concerns to enter into joint ventures in China to help import the advanced technology and equipment that China needs.

For all these reasons, Chinese, local and foreign banks will all intensify the utilization of Hong Kong to develop banking and financial operations. This is advantageous to Hong Kong in its efforts to solidify further its position as an international trade center.

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CSO: 4006/293

HONG KONG PLANS TO BUILD EXHIBITION CENTER

Hong Kong TA KUNG PAO in Chinese 19 Dec 84 p 4

[Article: "Hong Kong Trade Development Board Plans To Build an Exhibition Center"]

[Text] On the eve of the formal signing of the Sino-British agreement on Hong Kong, the Hong Kong Trade Development Board announced yesterday the building of a "Hong Kong International Exhibition Center" which has already attracted the attention of the businessmen. The center will become the largest exhibition center in Hong Kong and will be built by the New World Development Company, Ltd. The entire construction plan embodies a multi-purpose building for use as an exhibition center, two hotels, an office building and an apartment building. The total construction and fitting-up costs will amount to HK\$1.8 billion.

The "Hong Kong International Exhibition Center" will be located at the new land-fill called Gong-Wan-Dao in the Wan-Zai area, which occupies an area of 2.96 hectares (29,600 square meters), the cost of which has been waived by the Hong Kong government in the form of a contract signed with a private party. Deng Lianru [6772 5571 1172], chairman of the Hong Kong Trade Development Board, announced yesterday that the New World Development Company, Ltd., will take up the responsibility of carrying out such activities as marketing, fitting up and management and will hand over 5 percent of its turnover, about U.S. \$650,000, to the Trade Development Board.

The multi-purpose building will include an exhibition hall with a floor space of 23,000 square meters, an assembly hall with a capacity of 3,000, an auditorium with a capacity of 800 and other facilities such as hotels, restaurants, snack bars and meetingrooms. This building will also provide facilities which will enable cargoes or containers to be shipped directly from the docks to the exhibition hall. Also provided will be a yard which will be capable of accommodating 65 40-foot-long containers at the same time and a parking lot which will have space for 1,070 vehicles. In addition, there will be two giant elevators which can serve two 40-foot-long containers and lift exhibition items directly to the exhibition hall.

The exhibition center will connect the two hotels, which will have a total of 1,710 guest rooms, a 33-story mall and office building and a luxurious apartment building. Zheng Yutong [6774 5940 1749] said that both the office building and the apartment building will be put on the market for sale and it is estimated

that sales proceeds will amount to more than HK\$ 1 billion. So far as the two hotels are concerned, one may also be put on the market for sale and the remaining one will be considered as the company's "long-term investment."

Zheng Yutong, president of the New World Development Company, Ltd., indicated at a press conference yesterday that he will be very happy to sign this construction contract on the eve of the formal signing of the Sino-British agreement on Hong Kong. He indicated that he is full of confidence in the future of Hong Kong and believes that Hong Kong will become increasingly prosperous day after day.

When asked whether it is still being realistic in making such a big investment at a time when commercial units in Hong Kong have already reached its saturation point, Zheng Yutong said that he has full confidence in the future of Hong Kong. Today is the day in which the Sino-British agreement on Hong Kong has been formally initiated. The economy of Hong Kong will become increasingly prosperous. He believes that commercial units in Hong Kong will be in greater demand.

The New World Company has already obtained two loans of 500 million Hong Kong dollars each from the Hong Kong and Shanghai Banking Corporation and from the Hang Seng Bank. The company will add another HK\$800 million to invest in this project for construction and fitting-up costs. In addition, the company will prepay a total of HK\$75 million to the Trade Development Board by installment payment in 3 years to support the disbursements of the board. In addition, a sum of as much as HK\$25 million will also be paid to the board as a deposit, which will be fully refunded upon completion of the construction work.

Beginning on the day of the signing of the contract, the New World Company started to pay rent to the Trade Development Board for its current office space. After completion of the exhibition center, the Trade Development Board will reserve two stories of the center (an approximate floor space of 45,500 square meters) and designate the street-level floor of the center as a cargo loading and unloading area.

It is expected that the center will be completed in 1988. The hotels and mall will open in 1989.

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